Austria	Sch24	Iran	Rls[illegible]	Pakistan	Rs[illegible]
Bahrain	Din0.70	Israel	Shk3.50	Philippines	Peso[illegible]
Belgium	BFr55	Italy	L2500	Poland	Zl[illegible]
Cyprus	C£0.90	Jordan	JD1	Portugal	Esc[illegible]
Denmark	DKr12.00	Korea	Won 2000	Qatar	QR[illegible]
Egypt	E£3.25	Kuwait	Fils.500	S.Arabia	SR[illegible]
Finland	FMk[illegible]	Lebanon	L[illegible]	Singapore	S$4.10
France	FFr7.50	Lux	LFr58	Spain	Pts165
Germany	DM2.80	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr180	Morocco	MDh8.00	Switz	SFr2.80
Hungary	Ft107	Neth	Fl 3.25	Thailand	Bht50
Iceland	IKr165	Nigeria	Naira12	Tunisia	Din0.880
India	Rs15	Norway	NKr12.00	Turkey	L3000
Indonesia	Rp3100	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

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Monday December 17 1990

D 8523A

GERMAN UNITY
A cushion against recession abroad
Page 15

World News

ANC sets Pretoria deadline for reform

The African National Congress yesterday ended its most important conference for 30 years with a commitment to continue negotiations with the South African government, although it threatened to pull out of talks unless a strict timetable is adhered to. Resolutions were couched in militant rhetoric, reflecting dissatisfaction among many of the 1,600 delegates at concessions made by their leaders at the negotiating table. Page 16

Gulf talks row

The first of the proposed direct talks between the US and Iraq due to take place today have been postponed indefinitely, amid continuing brinkmanship over the timing of meetings but some fears that the chances of a peaceful solution may be fading. Page 16

Nadir still held

Asil Nadir, chairman of Polly Peck International, was still being held last night in central London after being arrested on Saturday as the result of a Serious Fraud Office investigation. A second man was also being questioned last night. Page 16

Romanians rally

Thousands of Romanians rallied with candles, flowers and angry words against the government to commemorate the uprising that sparked eastern Europe's 1989 anti-communist revolution. Page 3

Aquino drops ally

Philippines President Corazon Aquino dropped one of her closest allies from her cabinet in a bid to defuse growing opposition to her rule. She accepted the resignation of trade and industry secretary José Concepcion because of public clamour for his removal.

Israel deports Arabs

The Israeli government has reacted to growing Arab violence by reinstating a policy of deporting Palestinians, ordering the expulsion of four activists. Page 4

TV World Service

The BBC has brought forward the launch date for a daily television version of radio's World Service. The Gulf crisis persuaded the corporation to start transmission in March, but it could be brought forward if hostilities break out. Page 22

Fez death toll

Rioting in the old religious city of Fez, in the wake of a general strike last Friday, left a death toll estimated unofficially at up to 100. This was the first such flare-up in Morocco since 1981, when clashes in the economic capital, Casablanca, claimed a similar number of lives. Page 4

Indians shot dead

Indian police shot dead at least five people when Hindus and Moslems defied a curfew and battled in the streets of the Taj Mahal town of Agra. A curfew was ordered after the riots hit the town.

Mendes murder

A Brazilian cattle rancher and his son were convicted of first-degree murder for killing Chico Mendes, the rainforest defender whose death focused global attention on the destruction of the Amazon. The men were each sentenced to 19 years in prison at the end of the four-day trial. Page 4

Sky high at $50

A woman passenger survived a fall of five kilometres from a Soviet airliner and then won $50 compensation – for the loss of her baggage. A Soviet newspaper said the incident occurred in 1981 when an Aeroflot aircraft collided with a military aircraft but had been kept secret until now.

Business Summary

Federal Fund likely to lose $5bn next year

The Federal Fund, which insures US bank deposits, is likely to lose $5bn in 1991 following an expected $4bn loss this year, said Mr William Seidman, chairman of the Federal Deposit Insurance Corporation. Page 16

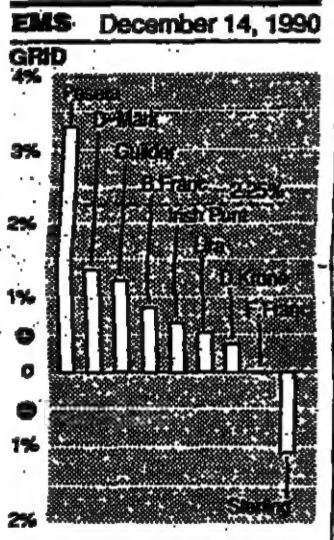
NEWS Corporation, Rupert Murdoch's international media group, is struggling to complete a $7bn loan package needed to allay a liquidity crisis. Page 17

AKER, big Norwegian industrial group, rejected a merger proposal from Euroc, Swedish cement and building materials group. The deal would have created one of Scandinavia's biggest companies. Page 17

MOULINEX, French kitchen equipment maker, is to go ahead with the takeover of Krups, German household appliance group, following the resolution of a boardroom row. Page 19

EUROPEAN Monetary System: Belgium raised official interest rates twice last week to keep the Belgian franc in line with the strong D-Mark. The Dutch central bank also tightened its credit stance to keep the guilder firm, but the Bank of Spain kept rates unchanged as the peseta remained at the top of the EMS. The Bank of France also left rates unchanged, and the UK chancellor warned that London rates cannot fall until sterling improves. The pound remained at the bottom of the system.

EMS December 14, 1990



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands. Weak £ prevents cut in interest rates, Page 8. Currencies, Page 27

Shearson Lehman, beleaguered investment banking and brokerage subsidiary of American Express, has lost another senior executive. Page 17

GENCOR, South Africa's second largest mining house, denied speculation that it was considering an outright merger with Lonrho, UK industrial group. Page 17

INSIDER TRADE: Irish prime minister Charles Haughey ordered an investigation into the leaking of official inflation figures to the Dublin stock exchange last week. Page 3

CASINO, French supermarkets group, is to sell all its petrol stations to Shell, UK oil major, and Agip, Italian state-controlled oil group, for FFr660m ($129m). Page 19

CBI, Confederation of British Industry, reports that more UK manufacturers expect output to fall in the next four months than at any time in the past 10 years. Page 8

Albanian forces tighten grip after widespread riots

By Judy Dempsey in London and Laura Silber in Belgrade

ALBANIA'S security forces have tightened their grip throughout the country's main towns and cities following anti-government demonstrations and warnings by President Ramiz Alia that "neither the state nor the people will tolerate criminal acts".

Police and troops yesterday were patrolling the streets of Tirana, barricades were in place outside the radio and television headquarters and the security forces were being fully deployed in other cities.

The ruling Albanian Party of Labour is now desperately trying to reassert its control. Workers throughout the country last week vented their anger against decades of misrule and growing economic deprivation after Mr Alia, leader of the APL, had bowed to students' demands by promising free, multi-party elections, which are scheduled to take place in February.

Mr Alia at the weekend told peasants in the village of Peza that "the competent organs must intervene immediately, without hesitation, against the vandals who destroy, burn down and plunder the people's property, and who are a menace to public order."

A western diplomat said yesterday: "These disorders are spontaneous outbursts of dissatisfaction and frustration with communist rule and mismanagement . . . the pressure is mounting."

Diplomats added that the wave of demonstrations in the small, poor and backward country of 3m inhabitants, could undermine Mr Alia's cautious policies of liberalisation. Conversely, fear of instability and deepening public hostility towards the APL could lead to a backlash by hardliners and the Sigurimi, the hated secret police.

The APL'S growing sense of insecurity was confirmed on Saturday after it refused co-operation with the newly formed independent Democratic party. Mr Gramoz Pashko, a professor of economics at Tirana's Enver Hoxha University, and one of the founding members of the party, said his movement had offered to help the APL "defuse the crisis".

But Mr Pashko, a privileged intellectual who has very close links with the communists, echoed the official view by describing the demonstrators as "hooligans" and "dark forces".

Workers in several cities, including Elbasan, the country's third largest city and the centre of the steel industry, rioted on Friday in an attempt to highlight the deprivation and poor conditions under which they have had to endure for the past 40 years."

Mr Alia now appears to be torn between maintaining the party's control against the background of growing instability, and allowing the process of democratisation to take its own course.

In an attempt to win over the support of the Catholic church, Mr Alia allowed Monsignor Simon Jubani, archbishop of Shkoder, to speak on Radio Tirana. In a brief statement he condemned "such acts of vandalism [which] go against the will of God".

EC embarks on new round of debate on closer union

By David Buchan and John Wyles in Rome

THE EC launched itself at the weekend into the most ambitious constitutional revision in its history, aimed at creating a political, economic and monetary union.

Governments of the Twelve will this week begin honing their negotiating positions for the two inter-governmental conferences – one on economic and monetary union (Emu) and the other on political reforms – that formally began in Rome on Saturday afternoon and are targetted to end next October.

There were, however, continuing differences of emphasis yesterday as leaders, ministers and officials returned to their national capitals. The British government plans to table its alternative, evolutionary approach to Emu in the form of a draft treaty early next month. The European Commission has already produced its own draft on Emu, and its president, Mr Jacques Delors, warned on Saturday of a "political crisis" if Britain were to blow this off course.

Despite the broad measure of agreement already reached on Emu, Mr Delors did not hide his anxieties that some governments might backslide on commitments already given. He said he was "mistrustful" of the process lying ahead. His comment in part reflected a fear that Britain's proposed amendments could set the objective of monetary union far into the future. But it also exposed worries about the obstructions which member states such as Germany might erect in setting as a precondition for monetary union a much closer convergence of performance between EC economies.

Mr John Major, the British prime minister, stressed that British policies on the main issues had not changed with his coming into office, although his partners left Rome with the belief that they could expect more flexibility than from his predecessor, Mrs Margaret Thatcher. He described the summit document on Epu as "a menu on which Britain had placed some of its favourite dishes" including measures to tighten controls on Community spending.

The menu simile appealed to Mr Giulio Andreotti, the summit chairman, who said that the Epu conference had to choose between options and that "the important thing is that all 12 governments have come to the negotiating table." He added that "a great effort" would be needed to ensure that the eventual treaties were ratified by all national parliaments. The Italian government, for its part, would not submit them to its parliament without their having first had a favourable opinion from the European Parliament.

On the political front, the governments will be grappling with the development of a common security policy among other things. First international reactions to this aspect of the Community's ambitious plans will be given in Brussels today, when Mr Gianni De Michelis, Italy's foreign minister and president of the EC, attends a meeting of Nato foreign ministers.

In contrast to the work on Emu, the European political union negotiations will begin on the basis of a summit document which sets only orientations on security and defence policy, strengthening the powers of the European Parliament, extending the range of the Community's activities and improving the efficiency of its machinery by a wider use of majority voting.

Jacques Delors: warning of potential political crisis

IGC negotiators have been asked to consider a possible Community role in "defence matters". This has stirred anxiety in the Irish government, the only non-Nato member of the EC. But Mr Charles Haughey, the Irish prime minister, said he was reassured by the summit declaration that defence discussions would be "without prejudice to the traditional position" of any non-Nato state.

The summit's outcome has been eagerly awaited by the Community's European Free Trade Association partners who may well give their initial reactions at a ministerial conference with the Community on Wednesday. The talks will seek a breakthrough in the negotiations to establish a single economic area between the 12 and the six plus Liechtenstein.

The neutrals among them, Austria, which has already applied for membership, and Sweden, which will do so next year, are unlikely to be alarmed by the summit's security policy ambitions.

Negotiators set out on perilous journey; Delors nurses a healthy suspicion; Italian viewpoint – Page 2

Western finance groups want rapid Soviet reforms

By Quentin Peel in Moscow

THE leading financial institutions of the west, including the International Monetary Fund and the World Bank, are expected this week to call for a radical acceleration of economic reform in the Soviet Union.

They have drawn up a comprehensive set of policy prescriptions for the Soviet authorities, including strict wage restraint to accompany price liberalisation, a complete overhaul of the taxation system, tough controls on credit for state enterprises, and much faster privatisation of trade, distribution and small business sectors.

At the same time, the most authoritative western analysis of the ailing Soviet economy yet produced gives forecasts of inflation in the coming year running at more than 50 per cent, a further slump in production of at least five per cent, and a doubling or tripling in unemployment - even based on "relatively optimistic assumptions".

A draft of the joint report produced by the IMF, the World Bank, the Organisation for Economic Co-operation and Development, and the European Bank for Reconstruction and Development, in consultation with the European Commission, has been circulated in Moscow for Soviet comments.

Initial reactions within the central government have been positive, according to western diplomats, because the report provides a coherent analysis of the country's present economic plight, and a series of clear policy prescriptions.

However, the document is based on the assumption that significant economic, financial and fiscal powers would be retained by the central authorities. That is likely to arouse the hostility of many of the 15 union republics, currently fighting for far greater control of foreign exchange earnings, tax revenues, and monetary policy.

Its clearest conclusion is that the Soviet government must opt for a more radical economic reform strategy, implying a shorter transition period to a market economy than that favoured by the present administration.

"The chances of staying with a conservative strategy in the medium term are slim," the authors say. Without sufficiently rigorous fiscal and monetary policies, "the result would be growing macroeconomic imbalances, increasingly severe shortages, and rising black market prices," – exactly the situation in the Soviet Union today.

The document stresses the need for clearer legal protection of private enterprise and private ownership, and calls for genuine liberalisation of foreign trade to make Soviet industry more competitive.

The distribution sector is also singled out, including road haulage, warehouses and retail shops, as a top priority area for privatisation, calling for the complete dismantling of the corrupt and inefficient state distribution system.

At the same time, the report accepts the need for some big compromises on traditional IMF orthodoxy, including the maintenance for a dual exchange rate system, creation of stabilisation funds to subsidise loss-making enterprises try

Continued on Page 16

IBM and British Telecom plan global service for companies

By Guy de Jonquières and Alan Cane in London

BRITISH TELECOM and International Business Machines of the US, the world's biggest computer maker, are in advanced negotiations on a plan to offer large companies worldwide a comprehensive communications service.

The planned alliance marks BT's most ambitious attempt to expand internationally and could position IBM as a powerful force in the world telecommunications market. By joining forces the two companies would pose a direct competitive challenge to monopolies in Europe as well as to American Telephone and Telegraph and other US network operators.

BT would take over management of IBM's internal communications system and link it with Tymnet, BT's international data network. Later, the two companies aim to extend their co-operation to the much larger market for international voice communications.

IBM at present uses its communications system mainly to link its own operations. Tymnet, which BT acquired from McDonnell Douglas of the US last year, is the largest specialised data network in the US. It also serves Europe and other parts of the world.

IBM would take responsibility for supplying the information services and software on the network – from the simple transmission of messages to the electronic processing of companies' ordering, billing and accounting.

The plan coincides with the British government's review of telecommunications policy. This is expected to end the telecommunications "duopoly" enjoyed by BT and Mercury and open the UK market to much wider competition.

IBM's recent decision to move the worldwide headquarters of its communications business from New York to London is understood to be closely connected with its planned alliance with BT.

The negotiations were initiated by Mr Iain Vallance, BT's chairman, with Mr John Akers, IBM's chairman. IBM is conducting the day-to-day negotiations through its UK subsidiary.

The two companies, which are among each others' largest customers, first sought to collaborate in 1984, when they agreed to form a joint venture to offer advanced data services in the UK. The British government refused on competition grounds to license the project after protests from other computer and communications companies.

But the government is not expected to oppose the latest plan, which would involve co-operation well beyond the UK market. However, the proposal could attract close scrutiny from competition authorities in Brussels.

In an effort to sidestep possible EC anti-trust objections, the two companies plan to structure their partnership as an informal "trading relationship" rather than as a joint venture.

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THE MONDAY INTERVIEW

Felipe González (left), prime minister of Spain, is one European leader who professes to no concern over the issue of sovereignty, or of the encroachments a future Europe might make upon it
Page 32

FT SURVEYS THIS WEEK

Yugoslav Trade and Industry
The country is still printing money, but not like it used to be. Efforts are also being made to free the troubled economy from state interference. *(See pages 13–18).*

■ **TODAY:**
East Midlands: facing leaner times. *(Separate section).*
Yugoslavia Trade & Industry: critical days ahead. *(See panel, left).*

■ **TUESDAY:**
Ireland: Two forces upstaged the country's successful EC presidency: the country's World Cup soccer team, and Mrs Mary Robinson.
European Finance, Investment, Part 11: Switzerland. *(Some editions).*

■ **WEDNESDAY:**
Channel Islands: redefining their positions as "offshore Europe".

■ **THURSDAY:**
Japanese Automotive Industry: An awesome presence that has competitors of all nationalities in various states of panic.

The negotiators set out on their perilous journey

THE European Community has now embarked on its most ambitious voyage ever. Its last constitutional revision, the Single European Act of 1986, did not do much more than provide the legislative grease to speed the achievement of the single market, a goal that all EC states shared.

Now, the two inter-governmental conferences which were ceremoniously opened in Rome at the weekend have been asked by the Rome summit to:

● Forge a common foreign and security policy, even to the point of "considering" a role for the Community in "defence matters".

● Strengthen the role of the European Parliament, even to the point of "considering" giving that trans-national legislative body co-decision, or an equal say, with the Council of Ministers, in making EC laws.

● Examine the concept of European citizenship, which might take the form of letting EC citizens vote in each other's local elections and receive common diplomatic protection in the rest of the world.

● Policy objectives

● Pursue the well-advanced work on economic and monetary union (Emu) to a conclusion.

These are the compass points that IGC negotiators have been set. They will have to steer through many treacherous shoals – and around two big rocks on which the good ship Europe could founder.

Sticking clear out of the water is UK opposition to the single European currency and federal central bank which its 11 partners agree they want. Prime Minister John Major said he was still wedded to the market-driven approach of letting a new monetary institution issue the "hard Ecu" and seeing how far this would develop into a common, or even a single, currency. He took the ideological sting out of UK opposition by suggesting that what the Community needed was "some practical experience" (with the hard Ecu) before it contemplated the irrevocable step of melting national monies into one.

None the less, he signalled that by early January, the Emu conference would have on the table a British draft treaty, putting its hard Ecu ideas into legal language, as an alternative to the draft treaty submitted this weekend by Mr Jacques Delors, the Commission president. Fears that this British plan, coupled with quite different perfectionist demands from Germany, might spin the conference into an endless seminar "where we all grow white beards" led Mr Delors into the melodramatic threat that "if we have to provoke a political crisis, so be it".

Equally, the political union conference (Epu) could be shipwrecked if negotiators strain too hard on defence. To mollify sensitivities in and outside the EC on this, the summit said that defence should be discused "without prejudice to member states' existing obligations in this area, bearing in mind the importance of maintaining and strengthening the ties within the Atlantic alliances and without prejudice to the traditional positions of other member states".

● Ian Davidson on Europe, Page 4
● South Africa: in from the cold, Page 4

In fact, there is only one such "other" state – neutral Ireland. Prime Minister Charles Haughey said "if the Twelve can devise a security policy by the Twelve for the Twelve, we will consider participating". This would mean the Community eschewing the closer links with the Western European Union (WEU) defence organisation that many other EC leaders want.

Dublin has to be wary. Even the mention of "security co-operation" in the 1986 Single Act required a special amendment to the Irish constitution.

But Ireland is relying on the fact that it will joined by at least Britain, Germany and Denmark in wanting to postpone discussion of strictly military matters to the subsequent IGC on political union that everyone expects will come towards the end of the century.

The fates of the two current IGCS are linked. Emu may be far further advanced but, even more than the UK, Germany is the key to its success, and its leader, Chancellor Helmut Kohl, made crystal clear again over the weekend that he would not go into a monetary union unless it was given a new political super-structure. "Parallelism is essential for us," he said.

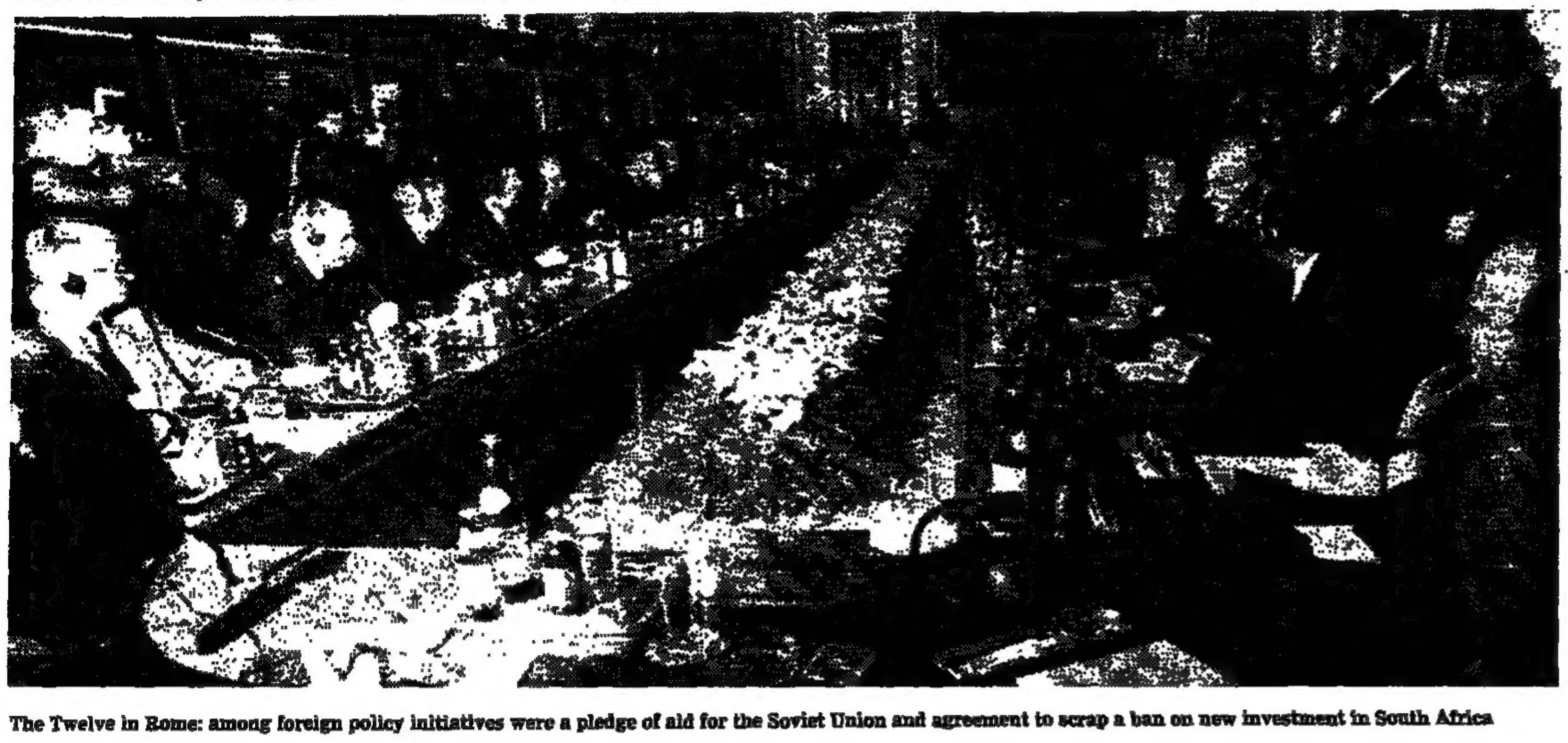
It may be some months before the IGCs produce headlines comparable to this weekend's. They now drop below the political plimsoll line into weekly (for Epu) and fortnightly (for Emu) negotiations by senior officials, punctuated by monthly ministerial reviews. The agreed aim is that they will aim to wind up both conferences by next October, leaving 14 months for ratification by national parliaments and entry into force on January 1 1993.

Events in the outside world will not, however, stand conveniently still. Indeed, the Rome summit's clear decision to provide Ecu1.15bn (£800m) in food and technical aid to Moscow next year is fast getting a common foreign policy in this area, which because of past relations with the Soviet Union has clear security implications.

The Rome summit called for redoubled efforts to do away with internal European Community border checks (part of the 1992 project), and therefore to harmonise controls on the Community's external frontier. A common policy on immigration, asylum, crime and drugs – hitherto police matters outside the EC treaty remit – might therefore be established before the IGC negotiators even get around to the issue.

Likewise, the new push on social legislation, which the summit urged (without outright British objections this time) may soon create new realities that the IGC will merely be asked to register in legal language.

David Buchan



The Twelve in Rome: among foreign policy initiatives were a pledge of aid for the Soviet Union and agreement to scrap a ban on new investment in South Africa

Major brings his instinct to bear

FOR Mr John Major it was an impressive debut on the European stage. In Rome, the British prime minister took the first step towards returning Britain to the centre of the European Community from the fringes to which Mrs Margaret Thatcher had driven it.

He demonstrated that what he lacked in experience at European summits, he could compensate for with a sharp political instinct and a generous sprinkling of charm.

But if the meeting was an undoubted personal success, it deferred rather than dispelled the dilemmas for his government and the Conservative party posed by the pressures for European integration.

The prime minister was careful to insist it was the style and tone not the substance of Britain's approach that had changed since Mrs Thatcher's isolation at the last Rome summit in October had precipitated her departure.

Mindful of the powerful anti-federalist streak running through the right of his party, he will make the same point when he reports on the summit to the House of Commons tomorrow

He is astute enough, however, to realise that in the detailed negotiations over coming months on political and economic union in the two inter-governmental conferences it will not be enough merely to sound positive.

There are already signs that he is prepared to compromise on substance. The draft treaty amendments which Britain will table in early January will be designed to demonstrate that its alternative to the Delors blueprint for a single currency offers a practical advance towards monetary union. The amendments will be designed to show that the "hard Ecu" – which Mr Major now refers to as a new European Currency – and the European Monetary Fund which will manage it – could provide a transition phase towards a single currency.

His signature on the communiqué this weekend indicated also that Mr Major is prepared to treat seriously suggestions for institutional changes in the conference on political union.

In a phrase which summed up the break with his predecessor, he commented that though many of the more defederalist suggestions of his partners were unacceptable, it was "helpful and legitimate" to discuss them.

What remains far less certain is whether the domestic political constraints he faces in the run-up to a general election will allow him to live up to the expectations he has now raised with his European colleagues.

Mr Major's approach at the summit was clear from the outset. The judgment of his advisers was that Mrs Thatcher had provided a unifying force for the other 11 Community governments. Without the cement which her opposition had provided, cracks would appear in the apparent consensus among his European colleagues.

To an extent it worked. Mrs Thatcher probably would not have signed without reservation the communiqué which Mr Major happily appended his name too. The references to strengthened powers for the European Parliament and to the accelerating the "social dimension" of the Community would have been anathema.

Senior officials with other delegations, however, were ready to admit that Mrs Thatcher would probably have not been offered the same document. Her fierce antipathy to the goals they shared would have persuaded them to seek to nail down more precisely the mandates for the two conferences.

● Britain back in the fold

As it was, France's determination to strengthen the powers of the Council, the Netherlands' focus on economic convergence as a precondition for Emu, and Germany's preoccupation with the independence of a European central bank, revealed plenty of cracks. It was probably that as much as anything that irritated Mr Jacques Delors, the EC president.

Mr Major was intent also on creating political alliances. His bilateral talks with Chancellor Helmut Kohl were part of an exercise designed to rebuild the many bridges burnt by Mrs Thatcher's opposition last year to German unification.

Those close to Mr Major expect their talks to be the first stage of a campaign to persuade the German leader of the natural identity of interest between the two major European parties of the right.

Mrs Thatcher's fraught relations with her colleagues in Europe sometimes exaggerated the cohesion of the other 11, but the plaudits they offered her successor should not be taken as evidence that the differences have disappeared.

President François Mitterand was among several leaders warning that they would now expect changes in substance to follow those in style.

Mr Major's hope must be that he can avoid that dilemma at least until after the general election. But as long as Britain's vision of the shape of Europe remains fundamentally different from that of its partners, he will not for be able to escape it indefinitely.

Philip Stephens

INTER-GOVERNMENTAL CONFERENCES

Brussels view

Delors nurses a healthy suspicion

"IN all this euphoria", said Mr Jacques Delors, European Commission president, "someone has to play Cassandra".

This is the key to understanding Mr Delors' Rome outburst that, if Britain and maybe some other countries sought to deflect the course of negotiations on economic and monetary union (Emu), "we might have to provoke a political crisis".

He was giving vent to his strong streak of political paranoia. And he cannot quite believe his luck so far. Having presided over the committee of experts that produced the original Delors report on Emu, having swung the Commission and 11 member states behind it, and having produced a complete draft Emu treaty on the eve of the Rome summit and the opening of formal Emu negotiations, he still knows there is many a slip between cup and lip, before agreement and ratification of a treaty by end-1992.

He also considers that the Commission has an institutional role, even duty, to be paranoid about Community projects being pushed off course. The "misgivings" he expressed in Rome were chiefly directed at the UK, whose hard Ecu treaty proposals next month Mr Delors wants discussed only in the context of the "transitional" phase to the longer Commission draft treaty, and not as a "distracting" complete alternative to his document.

But there are other targets of his suspicion, notably "perfectionists" in Germany who are loath to surrender the Bundesbank system until they see it exactly replicated at the EC level in the proposed EuroFed central bank. Mr Theo Waigel, the German finance minister, confirmed the Commission president's fears when he mentioned that incomes policies had to be an element in economic convergence among the Twelve.

Waigel: confirmed the president's fears

Mr Delors retorted that while relative wage and price stability was important, Emu negotiators had to focus on what governments could directly control – their budget deficits. The Commission president likens efforts to determine what is "real" economic convergence to medieval discussions of the sex of angels. He fears that Britain and Germany could in their very different ways spin out negotiations "until we all grow white beards".

As was once said of Dr Henry Kissinger, even paranoids have enemies.

David Buchan

Commission to step up search for trade deal

THE European Commission has been instructed by EC heads of government to step up its efforts to secure a resumption of the suspended trade liberalisation talks and reach a balanced agreement "in the shortest possible time."

In a rather defensive formal statement, the 12 avoided singling out the US for special mention over suspension of the General Agreement on Tariffs and Trade talks. But their appeal for "a balanced approach made by all participants" appeared to be rebuking Washington and its allies in the Cairns group of countries for seeking to put all the blame for the failure of the negotiations in Brussels earlier this month on the EC's unwillingness to make radical reforms to its common agricultural policy.

● The EC's foreign relations

An outburst from Mr Jacques Delors, the Commission president, at the summit's closing press conference was more explicit. "It is not up to the US to tell us how to organise our agricultural policy. The US has asked for too much too soon. They are the authors of the failure of the negotiations."

German Chancellor Helmut Kohl rejected the idea that his country had a special responsibility for untieing the Gatt knot. "Gatt concerns everyone so everyone will have to find a solution," he added.

The European summit's list of foreign policy declarations authorised a meeting between the Italian presidency and Mr Tariq Aziz, Iraqi foreign minister, aimed at securing compliance with United Nations resolutions. The summit supported dialogue with Iraq "of the sort President Bush has offered." It warned Iraq that UN Security Council resolution 678 – authorising use of force after January 15 – put the responsibility on the Iraqi government "to ensure peace for its people" by complying fully with UN demands. An appeal for compliance with UN resolutions was also directed at Israel.

On the Soviet Union, the Twelve signalled they would ask the US to re-negotiate statutes of the European Bank for Reconstruction and Development to increase Moscow's loan entitlement, currently Ecu180m over five years, which is limited by its 6 per cent share of the Bank's capital. The entitlement of eastern European countries is Ecu2bn.

They also stressed that co-operation with the USSR should be given a priority by EC institutions so that the Ecu1.15bn of food aid and technical assistance, which has been granted, can be swiftly implemented.

With some difficulty, the summit overcame objections from France, Ireland and Denmark to agree to lift the ban on direct investment in South Africa, first imposed in October 1986. Britain broke ranks to lift this ban earlier this year.

The Twelve said they had decided to encourage the process of political change under way in South Africa. They promised that a further easing of other trade, military and political restrictions on contacts with Pretoria would follow the repeal of the Group Areas Act and the Land Acts, two pillars of apartheid.

David Buchan
John Wyles

● The Rome presidency

Italy claims its place in the EC history books

ALTHOUGH struggling against more than a touch of exhaustion, the relieved and smiling faces of Mr Giulio Andreotti, the Italian prime minister, and of Mr Gianni De Michelis, his foreign minister, had but one message on Saturday afternoon: Italy had again presided over an historic step forward in the development of the European Community.

While Mr Andreotti went off to the Roman racetrack of Tor di Valle, where a successful wager added pecuniary gain to the political fruits of his characteristically skilful chairmanship of the summit, Mr De Michelis was giving patient attention to his public relations, lauding to television cameras the achievements of Italy's six-month term in the Community presidency.

"1991 will be a year of achievement for the Community, thanks to the impulse which our presidency has given it," said the foreign minister, who appeared to be carrying less weight and more hair than when he assumed his EC duties in July.

By dint of considerable political flair, matching determination and furious activity, Messrs Andreotti and De Michelis have ensured that the two summits of Rome 1990 will go into the history books alongside Milan of 1985, which launched the inter-governmental conference leading to the Single Act with its widening of EC responsibilities, Venice 1980 when the Community first clearly acknowledged the Palestinians' right to self-determination, the signing of the founding Treaty of Rome in 1957, and the preceding Messina conference which drafted it.

Steering the 12 to the final act of launching the inter-governmental conference on Economic and Monetary Union would by itself have been satisfying, But the attainment of an equivalent negotiation on European Political Union is of a different order because when the Italians took over in July, the political conviction had barely taken hold among the 12 that it should be a matching objective. "We started from scratch with just a blank piece of paper," said Mr De Michelis.

In the event, the 12 arrived at the Emu IGC in a more advanced state of preparation, thanks to the controversial summit in Rome which left the then British prime minister, Mrs Margaret Thatcher, feeling that she had been ambushed by Mr Andreotti. Then, the Italian prime minister seized on Chancellor Kohl's readiness to attach the January 1994 date to the creation of a European Central Bank and the launch of phase two of monetary union.

"Our view was that it was better to have a clear German position before their elections earlier this month," said Mr De Michelis.

He rightly feels that the two Rome summits allied to the successful co-ordination of the Community's reaction to the Iraqi invasion of Kuwait, the development of a political and economic support programme for President Gorbachev's perestroika and the signing of two declarations on future relations between the Community and the US and Canada, far outweigh some of the perceived shortcomings and failures of the Italian presidency.

John Wyles

Text of the summit communiqué

European union 'aims to realise the aspirations of its citizens'

The European Council in Rome established a broad framework for the negotiations which begin next month in the Intergovernmental Conference on Political Union. The following are edited extracts from the summit communique setting out the basis for the conference.

Political union

The union will be based on the solidarity of its member states, the fullest realisation of its citizens' aspirations, economic and social cohesion, proper balance between the responsibilities of the individual states and the Community and between the roles of the institutions

Without prejudice to other subjects raised by governments or by the Commission in the preparatory work, the European Council asks the conference to give particular attention to the following:

I. Democratic legitimacy

In order to strengthen the role of the European Parliament, the European Council asks the conference to consider the following measures:

● Extension and improvement of the co-operation procedure;

Extension of the procedure for assent to international agreements which require unanimous approval by the council;

● Involvement of the European Parliament in the appointment of the Commission and its president;

● Increased powers on budget control and financial accountability;

● Closer monitoring of the implementation of Community policies;

● Consolidation of the rights of petition and enquiry as regards Community matters.

The European Council also discussed further-reaching reforms on the role of the European Parliament and asks the conference to consider developing co-decision procedures for acts of a legislative nature.

Consideration should be given to arrangements allowing national parliaments to play their full role in the Community's development.

The European Council notes the particular importance which some member states attach to:

● The adoption of arrangements that take account of the special competence of regional or local institutions as regards certain Community policies;

● The need to consider suitable procedures for the consultation of such institutions.

2. Common foreign and security policy

The common foreign and security policy should aim at maintaining peace and international stability, developing friendly relations with all countries, promoting democracy, the rule of law and respect for human rights, encouraging the economic development of all nations, and should also bear in mind the special relations of individual member states.

To this end, the conference will in particular address the union's objectives, the scope of its policies and the means of fostering and ensuring their effective implementation within an institutional framework.

Such an institutional framework would be based on the following elements:

● One decision-making centre, namely the council;

● Harmonisation and, where appropriate, unification of the preparatory work; a unified secretariat;

● A reinforced role for the Commission, through a non-exclusive right of initiative;

● Adequate procedures for consulting and informing the European Parliament;

● Detailed procedures ensuring that the union can speak effectively with one voice on the international stage, in particular in international organisations and vis-a-vis third countries.

The following elements should be considered as a basis for the decision-making process:

● The rule of consensus in defining general guidelines; in this context, non-participation or abstention in the voting as a means of not preventing unanimity;

● The possibility of recourse to qualified-majority voting for the implementation of agreed policies.

As regards common security, the gradual extension of the union's role in this area should be considered, in particular with reference, initially, to issues debated in international organisations; arms control, disarmament and related issues; CSCE matters; certain questions debated in the United Nations, including peace-keeping operations; economic and technological co-operation in the armaments field; co-ordination of armaments expert policy, and non-proliferation.

Furthermore, the European Council emphasises that, with a view to the future, the prospect of a role for the union in defence matters should be considered, without prejudice to member states' existing obligations in this area, bearing in mind the importance of maintaining and strengthening the ties within the Atlantic alliance and without prejudice to the traditional positions of other member states.

3. European citizenship

The European Council notes with satisfaction the consensus among member states that the concept of European citizenship should be examined. It asks the conference to consider the extent to which the following rights could be enshrined in the treaty so as to give substance to this concept:

● Civil rights: participation in elections to the European Parliament in the country of residence; possible participation in municipal elections;

● Social and economic rights: freedom of movement and residence irrespective of engagement in economic activity, equality of opportunity and of treatment for all Community citizens;

● Joint protection of Community citizens outside the Community's borders.

Consideration should be given to the possible institution of a mechanism for the defence of citizens' rights as regards Community matters ("ombudsman"). In the implementation of any such provisions, appropriate consideration should be given to particular problems in some member states.

4. Extension and strengthening of Community action

The European Council...asks the Conference to bear in mind, inter alia, the following areas:

● The social dimension, including the need for social dialogue;

● Economic and social cohesion among the member states;

● Improved protection of the environment in order to ensure sustainable growth;

● The health sector and in particular the combating of major diseases;

● A research effort commensurate with the development of the Community's competitive capacity;

● An energy policy aiming at greater security and efficiency, bearing also in mind co-operation in the whole of Europe;

● Providing the Community with major infrastruct ures, in order also to permit the completion of a trans-European network;

● Safeguarding the diversity of the European heritage and promoting cultural exchanges and education.

5. Effectiveness and efficiency

It agreed that the essential role that the European Council has played over recent years in creating fundamental political momentum will continue. The conference will consider whether the Community's development towards the union necessitates an accentuation of this role.

Regarding the council, the extension of majority voting will be examined by the conference, including the possibility of making it the general rule with a limited number of exceptions.

Regarding the Commission, the European Council emphasised that extending the responsibilities of the Union must be accompanied by a strengthening of the Commission's role and in particular of its implementing powers to that it may, like the other institutions, help to make Community action more effective.

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Soviet super-parliament may put perestroika in balance

By Leyla Boulton in Moscow

THE future of perestroika will be in the balance when the Soviet Union's super-parliament gathers for the next 10 days to consider both new powers for President Mikhail Gorbachev and the proposed union treaty.

The Congress of People's Deputies, the country's supreme law-making body, is being asked to approve plans to hold the union together and combat economic chaos while the leadership tries to introduce a market economy.

But as the West mobilises aid to prop Mr Gorbachev, there are increasing signs that the Soviet leader may already be calling a halt to his own reform drive.

Much will depend on what personnel changes he announces as part of an overhaul of central government involving the appointment of a vice-president and an executive role for the Council of Federation, which groups republican leaders. A broad coalition of radicals and republican leaders could yet replace the moribund government of Mr Nikolai Ryzhkov, the prime minister.

It also remains to be seen how the 2,250-strong Congress will react to the draft union treaty submitted by Mr Gorbachev as the basis for negotiations with 15 increasingly restive republics, when at least four have no plans to sign it.

Mr Gorbachev last month unveiled the long-promised draft treaty for a voluntary union of sovereign states but immediately said republics had no choice but to join it.

He also proposed setting up direct presidential government involving republican representatives – the system foreseen by the union treaty – as an emergency measure until the treaty was formally signed.

Gorbachev: second thoughts?

The problem is that Kremlin moves since then have aroused alarm among reformers that Mr Gorbachev may be having second thoughts about real devolution of power to the republics and the introduction of a full-blooded market economy.

The latest blow came on Friday, when the president issued a decree basically trying to restore the long-lost authority of Gosplan, the state-planning agency, and banning the barter deals between enterprises which have become a major form of trade across the country.

With republics signing direct economic co-operation deals in a bid for more control over their resources, it is difficult to see how the latest presidential decree – which only repeats what an earlier one failed to achieve – can be enforced without a dictatorship to run the economy.

Mr Gorbachev is under pressure mainly from conservatives as well as some radicals to reimpose order from the centre. An alliance of communist officials and military men have proposed a vote of no confidence in the president.

Liberals such as Mr Anatoly Sobchak, mayor of Leningrad, have called for strong government to restore "poryadok" – order – and press ahead with economic reform.

But there has been little so far to reassure other radicals who are against giving Mr Gorbachev more power. Mr Gorbachev earlier this month replaced his popular interior minister, Mr Vadim Bakatin, with a former chief of the Latvian KGB.

Last week, the KGB security agency came out with a series of extraordinary attacks against traditional Soviet enemies – ranging from economic saboteurs to secessionist and dissident forces stirred up by foreign powers.

After loud protests by radical deputies who want a full congress debate on his declarations, General Vladimir Kryuchkov, the KGB chief appointed by President Gorbachev, tried at the weekend to back-pedal on his earlier call for a crackdown on even legal political opposition.

Possible signs are also mounting of an officially-orchestrated campaign to discredit pro-independence forces in Latvia, the weakest link in the Baltic republics' attempt to leave the Soviet Union because of its slim nationalist majority.

If President Gorbachev is in fact being misunderstood and his aims are really to outwit conservative opponents, then the Congress provides him with the chance to prove it.

Dublin calls 'insider trading' inquiry

By Kieran Cooke in Dublin

MR Charles Haughey, the Irish prime minister, has ordered an investigation into the leaking of official figures to the Dublin stock exchange which led to what is believed to have been large-scale insider trading at the end of last week.

Mr Haughey has asked the Central Statistics Office, the Department of Finance and his own office to find out how information on official inflation figures became known to certain people in the market well in advance of an official release.

Last Thursday, the government reported an inflation figure of 2.7 per cent, significantly better than expected. Such a figure would have tended to drive the price of government gilts higher. Brokers say that in advance of the official release there was a significant burst of activity on the Dublin exchange as up to I£80m of gilts were purchased.

Mr Michael Noonan, finance spokesman of the opposition Fine Gael party, said that if the international financial community thought the Irish government was "playing favourites" or had "sweetheart arrangements" with certain people to whom information was leaked, Dublin's reputation as a financial centre would be seriously damaged.

Another opposition member of the Irish parliament said it was outrageous that a small number of individuals should have access to such advance information, enabling them to make "a huge killing".

Over the weekend, Mr Haughey made efforts to play down the incident, describing it as "unfortunate and regrettable". Mr Haughey rejected the idea that Dublin's financial reputation would be harmed and said far worse events took place elsewhere.

Retailers broaden their outlook

Single-market law is reshaping the industry, writes John Thornhill

THE biggest supermarket chain in Spain is run by the French-owned Carrefour group. Delhaize Le Lion, the Belgian retailer, has a 40 per cent interest in Pingo Doce, Portugal's largest supermarket operator.

Since 1945, European food retailers have made around 250 operational investments outside their own countries.

Such facts belie the common impression that European retailing has been, and will remain, immune from the influences of internationalisation.

Though cross-border activity has been less hectic than in many other industries, retailers are increasingly having to broaden their outlook and think European. Even if they do not operate on a Europe-wide basis, it is probable that many of their suppliers and a growing number of their competitors will do so.

The UK has provided a graphic example in recent months with the entry of Aldi, the German discount chain, into its food retailing market.

Although Aldi has only opened 13 stores in Britain, it has prompted a storm of controversy in the industry by cutting its prices to the bone in an attempt to build market share.

Ikea, the Swedish furniture chain, has also had a significant impact on the furniture industry worldwide and at the end of 1989 had 83 stores open in 20 countries. Although EC single market legislation has little direct bearing on retailing, it has encouraged trends which are indirectly shaping the industry. They include:

- The increasing internationalisation of manufacturers and suppliers. The European food industry has seen many cross-border acquisitions over the last few years, which have further strengthened international companies such as Nestlé, Unilever and BSN.

As such companies have spread across Europe, there has been a growing trend among retailers to mirror such developments by joining together to strengthen their buying power. Argyll Group of the UK, Casino of France, and Ahold of the Netherlands have jointly formed the European Retailing Alliance (ERA).

The alliance's buying arm, Associated Marketing Services, also includes Migros, of Switzerland, Dansk Supermarked, of Denmark, and ICA of Sweden.

The three core members of ERA, which have aggregate sales of about £12.6bn, work together in quality assurance, information technology, distribution and logistics. There is also a cross-fertilisation of product knowledge: Argyll imports Casino's French table wines.

The European co-operative movement has also formed an international organisation, called Inter Co-op, one of whose functions is to organise joint buying. In western Europe the members of Inter Co-op have 23,000 stores and a turnover of $44bn.

- The development of pan-European tastes. Market research studies are beginning to show the emergence of similar buying patterns and habits across European boundaries.

Aldi, the German chain, has only opened 13 stores in Britain, but has prompted a storm of controversy by cutting its prices to the bone in an attempt to build market share

For example, a wealthy banker in Frankfurt may buy as many convenience products - such as ready-prepared microwave meals - as a colleague in Milan.

The development of Eurobrands, such as Mars's Snickers bar and the development of pan-European advertising campaigns, particularly via satellite television, are likely to reinforce such developments.

But in spite of the best efforts of the advertising industry, most of these brands have as yet been restricted to luxury goods, such as Gucci fashion items or Boss clothes.

- The saturation of home markets. Many retailers, especially in northern Europe, have reached saturation point in their home markets and have to look abroad for growth.

The top 20 retailers in Europe in terms of turnover are all from Germany, France, the UK, the Netherlands, or Belgium, and many of them are seeking to expand into the highly fragmented markets of southern Europe.

GIB Group, the Belgian mass-market retailer which accounts for about 13 per cent of the country's retail trade, is steadily expanding its trading presence in Spain and France. Ahold has a similar dominance in the Netherlands and has been developing international links through ERA.

Meanwhile, Kingfisher, formerly Woolworth, of the UK, has been looking to the Continent to bolster its electrical retailing business, probably by acquisition or joint venture.

This follows an attempt to take over the rival Dixons chain in the UK, which was blocked by the Monopolies and Mergers Commission on competition grounds.

In food retailing, northern European retailers have been the most active in looking to expand across borders. In a study on the internationalisation of food retailing prepared for the University of Stirling's Institute for Retail Studies, Mr Steven Burt has identified 246 international "actions" undertaken by European food retailers between 1945 and July 1990 - an action being defined as any form of operational investment or the formation of buying or marketing alliances.

More than 80 per cent of these actions were accounted for by retailers from France, Germany and the UK. Belgian and Dutch companies were also active.

The investments spanned 44 countries. The US was the most popular destination, receiving 26.4 per cent of the investments, followed by Spain (16.9 per cent) and Italy (5.7 per cent). But for all the forces shaping a more homogeneous European market, marked differences still exist, and are likely to persist, in national markets.

Local habits and cultures, planning restrictions and infrastructure all affect the success or failure of a retailing format, and can easily derail the efforts of new entrants.

For instance, Greece has idiosyncratic shopping hours. Italy has stringent planning restrictions. And any entrant to the Danish market would have to contend with a formidable co-operative movement whose shops account for 35 to 40 per cent of retail sales.

It can also be a mistake to presume knowledge of what other nationalities want. When Marks and Spencer entered the French market in 1975, it assumed French shoppers would be more fashion-conscious than their UK counterparts and would want to buy chic clothes.

But it quickly found that they wanted the same type of practical clothes obtainable in the UK and would go to fashion houses to buy their fashion items.

What is essential is to establish what the marketing profession would call a "unique selling proposition."

C&A, the privately-owned Dutch chain of clothing stores, Body Shop International, the UK natural cosmetics group, Benetton, the Italian fashion chain, Ikea, and Aldi are all

THE EUROPEAN MARKET

successful international retailers which have developed a distinct style.

Each has a clearly defined trading format and product range which enables it to distinguish itself in every European market.

The specific advantage can vary widely. For international fashion chains such as Benetton and Stefanel of Italy or Hennes & Mauritz of Sweden, it is a readily identifiable clothing style.

For Aldi it is price differentiation. For Body Shop it is an environmentally-based appeal.

Retailing formats can be translated into other countries, it seems, as long as the message is clear enough in the first place.

The Internationalisation of European Food Retailers. Steven Burt. Institute for Retail Studies, University of Stirling, Stirling, FK9 4LA. 0786 67386. £4.50.

Timisoara tells Iliescu to go

By Ariane Genillard in Timisoara

ONE year after the first anti-Ceausescu march which spearheaded last December's revolution, disillusioned citizens in Timisoara yesterday turned a poignant anniversary into a bitter call for the resignation of President Ion Iliescu and his National Salvation Front government.

Marching from the Reformed Church of the ethnic Hungarian priest Laszlo Tokes – whose arrest a year ago started the uprising – to the focal point of the fighting in Opera Square, 5,000 demonstrators chanted "The revolution is now over" and "Bucharest, help us get rid of the National Salvation Front".

Gathered under the same balcony of the Opera House where members of the emerging National Salvation Front addressed the revolutionaries a year ago, demonstrators echoed the speeches of commemorative societies with loud shouts of "Resign, resign".

Striking students were among the demonstrators, as were workers from 11 factories in Timisoara who were also reported to be on strike.

On Saturday evening, Laszlo Tokes held a religious ceremony outside his church and asked for "a second revolution, not like last year but a peaceful, Christian one".

"I don't mean only a spiritual abstract revolution but a political one, as well," added Father Tokes at a press conference yesterday afternoon.

He said he supported the newly-founded opposition movement Civic Alliance in its belief that ethnic divisions are currently exploited for political purposes.

In Bucharest on Saturday, Civic Alliance concluded its national conference with three demands: the creation of a government of national unity, earlier elections and a popular referendum to decide if the country should be headed by a presidential system, a parliamentary democracy or a constitutional monarchy.

Its first demand was supported by the six opposition political parties represented in parliament who held a joint convention of their own on the same day.

"I am joyful to see that society is beginning to unite its forces. Until now, we lacked such a technique, but we could achieve much more if we do," said Father Tokes.

The Hungarian Democratic Union of Romania, of which Laszlo Tokes is honorary president, is among the six parties calling for a government of national unity.

Germans warn on 'wave of refugees'

THE interior ministers of Germany's 16 federal states, fearing a wave of migration from eastern Europe and the Third World, demanded at the weekend an urgent reform of the country's liberal asylum law, Reuter reports from Potsdam.

Mr Dietmar Schlee, the interior minister of Baden-Württemberg, who chaired the meeting, said new legislation was needed fast to halt a growing flood of refugees.

Almost 200,000 refugees sought political asylum in Germany this year, compared with 120,000 in 1989.

"The growing wealth gap between east and west and north and south, travel liberalisation in eastern Europe and continuing crises in Asia and Africa mean a further increase in the flow of refugees to Europe must be expected," the ministers said in a joint statement.

The vast majority of applications for asylum in Germany are turned down.

But "economic refugees" spend years waiting at taxpayers' expense before their cases are heard.

Greek police hunt prisoners

GREEK police yesterday hunted scores of escaped convicts who staged the country's biggest jail break, beating their guards and locking them up, Reuter reports from Athens.

Police said 15 of those who escaped from Korydallos prison west of Athens at the weekend had been arrested and 200 police were searching for another 65 still at large.

Eight prisoners were caught trying to escape through the prison kitchens. A further seven, including an Iranian and two Romanians, were found at homes of relatives and friends.

Korydallos is Greece's main top-security prison. It has a capacity of 650 but holds more than 800 inmates, including a Palestinian guerrilla charged over the 1982 bombing of a Pan Am airliner.

Prisoners convicted of treason for involvement in the 1967-1974 military dictatorship are also held at Korydallos. Rioting prisoners took over parts of the jail in October, threatening to destroy it if their demands for better living conditions and shorter sentences were not met.

S Africa inches in from the global cold

Patti Waldmeir reports on reaction to the EC lifting its ban on new investment

COMING in from the Cold read the banner headline yesterday in the Sunday Times, South Africa's biggest-selling newspaper, which announced with glee the European Community decision to lift its ban on new investment in South Africa.

The largest companies in the country were clearly delighted by the first significant relaxation in sanctions imposed by the international community to try to force an end to apartheid.

Black organisations were predictably peeved: the Azanian People's Organisation, a radical black consciousness group, said the decision was to be expected because "white people support other white people".

The African National Congress (ANC) regretted the step, which was taken despite a personal appeal to EC leaders from Mr Nelson Mandela, ANC deputy president, asking them to maintain sanctions.

For all the rhetoric, the move is likely to prove mostly symbolic: it will take more than a blessing from the EC to persuade investors to put their capital at risk in a country with high inflation (14 per cent for the year to last October), low productivity, a poorly skilled workforce, and violence which has killed more than 1,000 people in the past four months.

Anglo American, South Africa's largest mining house, said in a statement that the move was a big step towards ending sanctions and normalising relations between South Africa and the international community. But Mr Bobby Godsell, group director of public affairs, pointed out that the decision removes only a "political bar" to investment.

"In order to attract investment, we have to persuade investors that we are not on the way to becoming a Beirut in respect of violence, or an Argentina in respect of our inflation rate," he added.

Investors will also wish to see clarification of the ANC's economic policies before committing funds. The organisation's policy on the economy is still evolving, and its most recent policy document appeared to move away from an earlier insistence on nationalisation. Even so, it makes clear that there would be a high degree of state involvement in any ANC-dominated government.

However, the EC decision will have an impact on the morale of local business, which recently began to see the light at the end of the tunnel on sanctions.

Prof Jan Lombard, deputy governor of the South African Reserve Bank, the central bank, greeted the move as "very good news indeed." The Sunday Times article quoted him as saying: "At this point the lifting of the ban is more symbolic than anything else, but it will free international financial institutions to deal more openly with us. The importance of the development cannot be underestimated."

The bulk of international sanctions will remain in place, despite the EC move. Community bans on imports of iron, steel and gold coins will remain in force until Pretoria carries out its promise to repeal the Group Areas Act and the Land Acts – key apartheid laws.

The international oil and arms embargoes will remain, as will the freeze on sporting contacts and restrictions on cultural and scientific exchanges. US trade and investment sanctions remain in force.

Of these, the oil and arms embargoes have imposed a heavy price, by forcing Pretoria to stockpile large quantities of oil and to pursue self-sufficiency by investing in industries which are not commercially viable. The sports boycott has had the greatest psychological impact on a sports-mad country.

Yet the ANC itself provides a damning indictment of the effectiveness of sanctions. A working paper presented to its national conference at the weekend – and rejected out of hand by delegates – conceded that "trade sanctions are making little impact on the economy, which continues to experience international trade surpluses," that "economic links with the [rest of the] African continent seem to be growing", that the Soviet Union, once the ANC's staunchest backer, has decided to set up an "interests section" in the Austrian embassy in Pretoria, and that net capital outflows, which totalled R30bn (£6.1bn) from 1985-89, have been reversed (recent central bank figures show a R1.5bn net capital inflow in the third quarter this year, the first in three years).

● THE MIDDLE EAST

Algerian peace shuttle frustrated by Iraqis

By **Tony Walker** in Cairo

ALGERIA'S peace shuttle, aimed at promoting an Arab solution to the Gulf crisis, appeared to be faltering at the weekend in the absence of any sign of Iraqi flexibility.

President Benjedid of Algeria was due in Cairo last night on the seventh leg of a regional tour that has already taken him to Jordan, Iraq, Iran, Oman, Syria and Lebanon, in apparently fruitless efforts to advance a regional peace initiative.

Mr Benjedid, in his talks in Baghdad late last week, is believed to have advanced proposals for the simultaneous withdrawal of Iraqi and US troops from the Gulf, leaving the way open for a pan-Arab contingent to assume responsibities for security in a transitional phase.

Syria was reported to be unenthusiastic about the proposal, as was Saudi Arabia which has been cool towards the Benjedid mission from the start. Egypt has not expressed a view publicly, but is likely to share Syrian and Saudi misgivings.

Lack of progress towards an Arab solution, and the continued wrangling between Baghdad and Washington over dates for officials' talks, has dimmed hopes in the region of a peaceful resolution of the crisis. There are fears that the slide towards war could now take on a momentum of its own.

Algeria is insisting that Mr Benjedid's mission was not aimed at mediating between Arab protagonists in the Gulf conflict. An official quoted by Algerian APS news agency said the president was "supporting the dynamic of peace."

But news last week that Mr Benjedid was embarking on a personal peace initiative raised hopes of revived Arab mediation efforts. Algeria has traditionally played a conciliatory role in solving inter-Arab disputes that swirl incessantly about the region.

The Algerian official said: "At the moment, there is no Algerian mediation or plan on this subject. The only Algerian goal is to support, through frank and sincere dialogue, any dynamic of peace able to ensure conditions of stability and security in the region."

Mr Benjedid became the first head of state to visit Lebanon since President François Mitterrand of France in 1983, when he made a surprise stop on his way from Damascus to Cairo. The Algerian leader's visit to Beirut was seen as a vote of support for present efforts to bring peace to the war-torn city.

Mendes killers sentenced to 19 years

By **Christina Lamb** in Rio de Janeiro

A BRAZILIAN cattle rancher and his 23-year-old son were each sentenced to 19 years in prison, late on Saturday, after a jury had found them guilty of the murder of Chico Mendes, an outspoken defender of the Amazonian rainforest.

The seven-member jury, in the far-western Amazonian town of Xapuri, decided that Mr Darli Alves da Silva plotted the shotgun killing of Mr Mendes, two years ago, and that his son Darcy Alves Pereira carried out the crime.

The prosecution asked that the verdict serve as an example for the fight against rural violence throughout Brazil.

There have been 1,200 murders of rural workers and union leaders in the country over the last decade, yet only two gunmen had been sentenced before the Mendes trial. The rural potentates behind these killings used not to be brought to trial. Now, there could now be a wave of such cases.

The father and son were brought to trial only because of the international attention on the case and the concern of the new president, Mr Fernando Collor, to change Brazil's poor image on human rights issues.

Judge Adair Longhini reads the jury's verdict as the two convicted men stand before him in the court

Regarded as the world's first ecological martyr, Chico Mendes came to the foreigners' attention by mobilising rubber tappers and indigenous tribes in a Forest People's Alliance. This tries to save the rainforest from destruction by developers and large landowners who have been encouraged to move into Brazilian Amazonia over the last two decades by federal government incentives.

Mr Mendes's main victory was to save, in September 1988, a clearing owned by the Alves family, which the government thendeclared a reserve. He was killed two months later.

On the first day of the four-day trial, Darcy Alves admitted that he had killed Mendes. However, the father insisted he was not involved.

The crucial testimony came from a 15-year-old boy, Genesio Ferreira da Silva, who had worked at the Alves ranch.

He gave detailed evidence of discussions between the father and the son when plotting the murder, and told of a barbecue held afterwards in celebration.

The prosection lawyers insist more landowners were involved in the plot. Mr Márcio Tomas Bastos said: "I have no doubt there were more people involved."

He promised to continue investigations into those who "used Darcy and Darli, but remain in the shadows."

Pakistan sets plan for bank privatisation into motion

By **Farhan Bokhari** in Islamabad

THE PAKISTANI government set in motion at the weekend its planned privatisation of state-owned banks, inviting bids for shares in the first, Muslim Commercial Bank.

The government will sell 26 per cent of the equity and hand over the bank's management to the private sector, after selecting a bid from offers made by December 26, said terms advertised in national newspapers.

The new management will be required to sell another 25 per cent to the public, and the government will retain 49 per cent.

The MCB privatisation will be important in determining theresponse of investors and bank employees. Bank union leaders have opposed privatisation, fearing it means branch closures and job losses.

After a meeting of union leaders in Rawalpindi, Mr Habibullah Juneidi, secretary-general of the federal organisation for financial sector employees, said that bank unions had decided to oppose the government's plans.

But Mr Ejaz-ul-Haq, Labour Minister, said the government will protect workers' rights, adding that privatisation will not result in unemployment. He told a public meeting that a new labour policy, to be announced soon, would safeguard workers.

● Closer accord on curbing nuclear proliferation in the south Asian region has emerged, according to Western diplomats in Islamabad, from a visit to Pakistan by a senior US official. Dr Henry Rowen, Assistant Secretary of Defence for International Security, yesterday ended a three-day visit.

He met General Aslam Beg, the country's military chief and Mr Yaqub Khan, Foreign Minister. The US embassy in Islamabad said: "The US and Pakistan agree on the importance and desirability of regional approaches to reduce tensions in the area, and as a reflection of new international realities".

Earlier, Pakistani officials had said that their country would not ratify the international nuclear non-proliferation treaty unless India did so.

UK force 'soon on war footing'

By **Mark Nicholson** in Dhahran

THE FULL complement of British troops in Saudi Arabia will be on an offensive footing and ready to fight by early January, their commanding officer said yesterday.

Maj Gen Rupert Smith, making his first tour of troops in the desert, also said that his forces would be ready to fight through the scorching Saudi summer if necessary.

He said that the main build-up of additional troops and armour, the deployment of which was announced late last month, would begin arriving in Dhahran this week and be in place just after Christmas.

"The full division will be here and ready to fight early in January," said Maj Gen Smith, after arriving by Puma helicopter to meet members of the Royal Scots Dragoon Guards in the shadow of their Challenger tanks.

However, military officials and the soldiers already deployed agree that it will take the newly arriving troops between three and five weeks to acclimatise fully to the harsh desert.

The deployment the the Fourth Armoured Brigade – an extra Challenger tank regiment, two armoured infantry battalions, plus reconnaissance, artillery and other support – will bring to more than 30,000 the number of British military personnel in the Gulf.

The Fourth Brigade, together with the Seventh Brigade already in place, forms the First Armoured Division, of which Maj Gen Smith took charge in October.

He was previously deputy commandant of the army staff college in Camberley.

Maj Gen Smith said he was not troubled by the possibility that his men may not see action until the Saudi summer in March, when temperatures soar from the present winter 80 to well above 100 degrees.

Israel deports Palestinians

By **Judy Maltz** in Jerusalem

THE ISRAELI government has reacted to growing Arab violence by reinstating a policy of deporting Palestinians. It ordered the expulsion of four activists at the weekend.

Mr Moshe Arens, Defence Minister, said yesterday that other deportations would follow. Several senior ministers called on the government to use the death penalty against those who had attacked Jews.

The expulsion orders, which drew condemnation from the US, were issued by the Defence Ministry after three Jews were stabbed to death on Friday by Arabs in a Tel Aviv factory. Israel had suspended its expulsion policy in 1989, in response to US pressure.

The four Palestinians ordered out – all residents of the Gaza Strip – are believed to be organisers of the fundamentalist Hamas movement, which claimed responsibility for the Friday attack. Palestinian lawyers in the Gaza Strip said they intended to appeal against the order. All such previous appeals have been rejected.

Eight Jews have been stabbed to death by Arabs since the killing on October 8 of 18 Arabs on Jerusalem's Temple Mount by Israeli police. The army recently began to restrict the number of Palestinian residents of the Occupied Territories allowed to enter Israel.

"I imagine the expulsions decided on yesterday will not be the last, and we will not hesitate to use this means in those cases where, in our opinion, it will be effective," said Mr Arens. Members of Hamas vowed, in a leaflet issued yesterday, to continue their attacks against Israeli citizens.

Mr Binyamin Netanyahu, Deputy Foreign minister, brushed off US condemnation of the deportation policy: "The key question is – how can we strengthen our deterrence against knives and murderers?"

● The 21-member Arab League, in a statement issued in Cairo last night, condemned "what the struggling Palestinian people are subjected to of success waves of repression brutally carried out by the Israel occupation authorities," Tony Walker adds from Cairo.

"It appeals to the international community, particularly the permanent members (of the UN Security Council) to implement United Nations resolutions on banning expulsion of Palestinian citizens."

Japan discovers beauty of functionalism

By **Robert Thomson** in Tokyo

JAPAN'S severe labour shortage is forcing companies to find new ways of attracting staff. Competition for new employees is particularly tough in Japanese factories, where the pressure to produce a more pleasant working environment is causing a change in attitudes to machine design. Machine manufacturers are now receiving an extra specification in their orders – that the machine should look good.

Japanese companies naturally ask their equipment suppliers for faster, more accurate machines, which in themselves save labour. But around Nagoya, where the labour shortage is most severe, companies have begun to order colour co-ordinated, sleekly designed machines.

Mr Hideo Shindo, assistant director of the industrial machinery division at the Ministry of International Trade and Industry (Miti), said that having satisfied the demands for precision, speed, and systemisation of machine tools, suppliers are now under pressure to consider the aesthetics. "We can see that this is a new trend," he said.

Miti says that surveys of Japanese industry in recent years have shown a strong desire for cleaner and more compact machinery. At the same time, the labour shortage has worsened, the drive for labour-saving automation has intensified, and better-looking machines have emerged.

The trend has encouraged companies to employ a Nagoya design house, Cobo, whose president, Mr Shinichi Yamamura, is a former designer for Mitsubishi Heavy Industries. Larger companies have their own design departments, which are under orders to beautify machines. Cobo is the largest freelance house in the region. "Personality and character are becoming important in machine design. Until now, there has been a strong emphasis on practicality, on the simple act of production, but even some smaller factories are thinking about these new aesthetic points," Mr Yamamura said.

Cobo has recently redesigned an unsightly overhead factory conveyor vehicle with a design reminiscent of a sports car and finished in bright yellow, with sleek black trim. A carton-printing machine comes in a sensuous blue, and a crawler crane designed by Cobo for Sumitomo Construction is a monument to minimalism.

Mr Yamamura does not suggest that Japanese designers are the first to make stylish machines, but argues that labour pressures, combined with the wealth of Japanese companies, have given the movement momentum. There are now practical reasons for companies to buy machines that are pleasing to the eye.

Miti's Business Behaviour Division believes that a solution to the labour shortage should come from re-employing retired workers and hiring more middle-aged women. The problem is that labour is badly needed in the manufacturing and construction industries, which have not been thought suitable places for the elderly or women.

Machinery manufacturers themselves have difficulty in attracting new workers, as there are 2.3 jobs for every applicant in the Nagoya area, a machine production base. In the past two years, firms have attempted to increase their appeal with the renovation of staff dormitories, improved recreation facilities, and the introduction of more flexible work schedules.

In the same district, an association of ship and boat builders has devised "The Young Man Project" to freshen its image and bring in young workers to the unfashionable industry. Shipbuilding suffers fromthe "three Ks" that young Japanese now avoid when choosing a job – kitanai (dirty), kitsui (difficult), and kiken (dangerous).

The labour shortage is particularly serious among subcontractors to the larger, better-known manufacturing companies, whose size and reputation attract new employees. But better-known companies are also making greater demands on their machine suppliers in anticipation of future staff shortages, and are keen to make their factories international showpieces.

Mr Takeshi Yano, Sintokogio's managing director, said: "Senior executives of the auto industry don't want casting to be a dirty process. The auto executives complain that their production lines are clean, but casting is still not so beautiful."

Turnout heavy in Haiti

By **Canute James** in Kingston

ARMED soldiers and policemen guarded polling stations in Haiti yesterday, amid fears that right-wing gangs would try to interrupt voting for a president and legislators in the Caribbean republic.

The turnout was heavy, with long queues at many polling stations before they opened. Just over 3m Haitians are on the register.

The last election, in 1987, was aborted after armed thugs, with the tacit support of the army, murdered 34 people waiting to vote. The army has said it will support the elections and the new government.

The new president, who may not emerge till after a run-off, is to be installed in February.

The size of electoral rallies in the past fortnight indicates that a strong contender is Father Jean-Bertrand Aristide, a radical priest.

Other leading contenders are Mr Marc Bazin, a former economist with the World Bank, and Mr Louis Dejoie, son of an opponent of the Duvalier dictatorship.

Political tension has been high in the country of 7m people over the past ten days, after eight people died from a bomb blast at a rally held by Father Aristide. The attack was blamed on the remaining tontons macoutes, the rump of the private militia of the Duvalier dictatorship.

The macoutes have been angered by the refusal of the electoral authorities to allow their former leader, Mr Roger Lafontant, to contest the election.

The result will be known in four days, according to Haitian officials.

Death toll in aftermath of Fez religious riots may reach 100

By **Francis Ghiles**

RIOTING in the old religious city of Fez, in the wake of a general strike last Friday, left a death toll estimated unofficially at up to 100.

This was the first such flare-up in Morocco since 1981, when clashes in the economic capital, Casablanca, claimed a similar number of lives.

The official toll said only five people had died and 127 been wounded. However, trade union leaders and local doctors put the deaths at 100, many of them soldiers.

A doctor added that families of demonstrators did not report their dead or wounded for fear of reprisals, and it was customary for the dead to be buried secretly at night.

Two factors lie behind the violence.

First, Moroccan workers have seen their standard of living decline in recent years, as prices have risen more rapidly than their often meagre wages, and subsidies on a range of basic foodstuffs have been cut.

Morocco has followed a series of IMF readjustment plans since it started rescheduling its foreign debt in 1983, all of which have meant restraint on often-high government deficits.

The old artisan class, particularly prominent in Fez, has also been badly affected by these policies.

Second, the Moroccan unions, and the many younger technocrats who have been promoted in recent years, are less and less willing to accept the autocratic and often corrupt ways of the government under Dr Ahmed Laraki, who is seen as an ineffectual prime minister.

Two days before the strike, the unions called for greater democracy and a dialogue with the authorities to discuss social and economic problems. To date, no Moroccan has dared criticise King Hassan himself – union leaders welcomed his possible role as a referee.

In spite of the violent rioting in Casablanca in 1981 and in the northern Rif area in 1984, the king has benefited from Moroccan enthusiasm for what many see as their "sacred" cause in the Western Sahara, a form of Spanish colony which Morocco took over in 1975 against strong opposition from the Polisario Liberation Front.

Negotiations involving Mr Javier Pérez de Cuéllar, UN Secretary-General, have been under way to find a settlement for the past two years.

Recent reports from Amnesty International – and a scathing best-selling book in France, Our Friend the King by Gilles Perrault – have made King Hassan's task no easier.

By pinning responsibility for the many abuses of human rights recorded in Morocco squarely on the monarch, they have undermined his authority.

A last factor may well be at work, though it is difficult to gauge its influence – the extraordinary freedom which has been on display in neighbouring Algeria since 1988.

The Maghreb countries may well be at odds at governmental level, but their peoples are avid followers of what is going on next door.

● Spanish Prime Minister Felipe Gonzalez plans to meet Dr Laraki in Fez this week for their first summit, despite riots in the city, the Europa Press news service said yesterday, Reuter adds from Madrid.

Dozens of demonstrators gathered outside Morocco's embassy in Madrid to protest against military repression of the weekend riots.

The meeting between Mr Gonzalez and Mr Laraki, scheduled for December 20-21, is expected to mark an end to years of mutual mistrust between the two countries.

Mr Gonzalez, talking to reporters at a European Community summit in Rome on Saturday, expressed grief over the riots but said his plans to go to Fez were unchanged, Europa Press said.

Spain said it would grant Morocco a $16m credit. The two countries plan to build a bridge or tunnel to connect Europe and Africa across the 15-kilometre strait of Gibraltar.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Oct.'90	Sep.'90	Aug.'90	Oct.'89
US	51,850	49,414	46,174	41,552
Japan	68,799	68,102	68,072	77,790
W. Germany	61,091	59,670	58,971	54,836
Italy	66,086	66,422	66,964	44,639
UK	33,049	32,951	32,985	32,197
Netherlands	16,337	15,877	15,834	14,621
	Sep.'90	Aug.'90	Jul.'90	Sep.'89
France	29,264	26,010	25,786	22,995

Source: IMF

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MP calls for incentives to end 'savings trap'

By Alison Smith

RESTRICTIVE tests on capital for assessing welfare benefits should be abolished because they create a "savings trap", Mr Julian Brazier, Conservative MP for Canterbury, argues in a pamphlet published today.

In a memorandum for the Bow Group, a centre-right Tory think-tank, Mr Brazier argues that higher savings would enable interest rates to be lowered without causing an inflationary surge in spending.

On 1989 figures, net household savings in the UK account for 5 per cent of disposable household income, compared with 15.3 per cent in Japan and 12.2 per cent in Germany.

Mr John Major, the prime minister, has put much emphasis on "the savings culture". In his speech at his adoption as party leader last month, he said that in the 1990s "we must work to extend savings further" for social and economic reasons.

Mr Brazier states that the main difference between the UK and countries with a higher savings ratio is not the real rate of return, but the way the welfare system puts savers at a disadvantage.

In particular, the paper looks at the large number of families where the breadwinner is, or was, consistently in work, though on a modest income. The disincentives for this group to save are so great, Mr Brazier says, that there is no sense in having savings other than those invested in a house or pension fund.

Some people face combined rates of tax, inflation and withdrawal of benefits of 200 per cent to 300 per cent of the nominal return on their savings.

The cost of removing the tests for housing benefit, community-charge benefit, family credit and income support would be about £132m, the pamphlet says. That would be far outweighed by the "resultant restraint on spending".

Mr Brazier plans to discuss his proposals with ministers in the Treasury and the Department of Social Security.

● Mr Michael Meacher, shadow social security secretary, is to meet Mrs Vasso Papandreou, the EC social affairs commissioner, in Brussels today to present a Labour report showing that the UK spends less than the European average on a range of social security benefits.

"British people will be shocked to learn just how badly we compare with our major competitors," Mr Meacher said.

Getting to the heart of the nuclear question

David Green on uncertainties which mean that Britain's first PWR may be its last

THE "heart" of the Sizewell B nuclear power station arrived in Suffolk at the weekend after a 1,200-mile journey by river and sea from a factory in central France.

As the barge carrying the £10m pressure vessel for the station edged along its last lap to Sizewell, officials in the industry were wondering whether Britain's first pressurised water reactor (PWR) would also be its last.

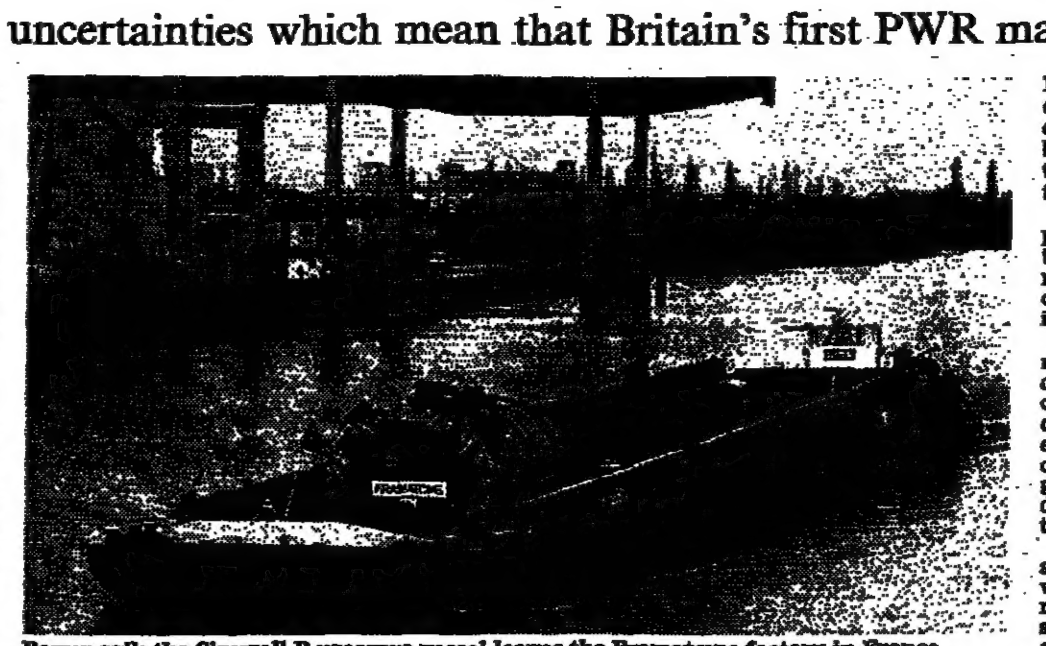
Until November last year, Framatome, the French producer of nuclear reactors in which the French government has a stake, was expecting to supply Sizewll B with three more of the vessels in which nuclear reaction takes place. It supplied the original 450-tonne vessel for the project.

The three others would have completed the £6.2bn programme planned by Nuclear Electric, the state-owned generating company which was then part of the Central Electricity Generating Board.

However, last year the nuclear element of the CEGB was suddenly withdrawn from electricity privatisation amid signs that investors were deeply worried about the industry's costs. The government ordered a halt to stations planned to follow Sizewell B, pending the outcome of a review.

That decision has not ruled out the building of privately financed nuclear plants after privatisation.

However, considerable cost uncertainties will have to be resolved before the UK nuclear industry is likely to be revived under either public or private ownership. The first uncertainty is the industry's ability to complete power stations on time and within budget and to generate electricity economically.



Power sail: the Sizewell B pressure vessel leaves the Framatome factory in France

The advanced gas-cooled reactor (AGR) programme of the 1970s was riddled with construction cost increases and time overruns while operating performances were mediocre.

A government review of nuclear economics has been set for 1994, the year Sizewell B is due to be commissioned. The capital cost of the project has risen over the past 15 months from £1.69bn to £2.03bn (both expressed in March 1987 prices). About £170m of the increase is blamed on design changes and extra costs of instrumentation and computer software. The rest is a consequence of the abandonment of the rest of the PWR building programme. Costs which would have been spread across four power stations have had to be concentrated on one.

Nuclear Electric has set a 63-month target for the main construction phase. It is now nearly half way through that period, and is four weeks behind schedule. The company says it is confident delays in commissioning will be avoided, in spite of a continuing lack of progress in designing a vital computer programme.

The second uncertainty which must be resolved by the time of the 1994 review involves the long-term cost of dealing with radioactive waste, including the residue from the reprocessing of spent fuel rods by British Nuclear Fuels at Sellafield, Cumbria.

Nuclear electric has for some time been considering the economic merits of a dry store for spent fuel at Heysham, Lancashire. It would be designed primarily for spent AGR fuel, but could also take PWR fuel.

Delay and uncertainty continue in the search for a repository for intermediate-level radioactive waste, now stored at Sellafield, and for a successor to the dump for low-level waste at nearby Drigg. Until 1985, the Drigg dump was expected to be filled by the early years of the 21st century, but new waste-compaction techniques may extend its lifetime to the year 2050.

The third uncertainty, and perhaps the most significant threatening the future of nuclear power in the UK, is over the cost of de-commissioning power stations.

No full-scale commercial reactor has so far been decommissioned anywhere, and cost estimates are constantly changing. The department of energy has kept a closer check on revised estimates since the government decision to withdraw nuclear power from electricity privatisation.

The main factor likely to affect costs is the period over which de-commissioning is carried out. After removal of all spent fuel, reactors can be left alone to enable the radioactivity to subside. The longer plant is left, the greater the reduction in radioactivity and the lower the cost of dismantling.

Instead of dismantling the reactor core, a process which would be very expensive, Nuclear Electric has been considering whether to surround it with concrete and cover it with soil. With growing environmental concern about emissions of harmful gases by coal-fired power stations which now meet more than 80 per cent of UK power demand, the nuclear industry believes the question is not if new plants will be built but when.

Successful completion of Sizewell B may bring the starting date nearer.

NEWS IN BRIEF

Average drinks bill is £1,000

THE AVERAGE British household will have spent more than £1,000 this year on alcoholic drinks in spite of the consumer squeeze, according to a report by Verdict Research, retail analysts, writes Philip Rawstorne. Expenditure on spirits, beer and wines is expected to total £21.7bn.

Overall sales have risen by 10 per cent in real terms since 1983. Pubs and restaurants account for three quarters of all sales, but take-home sales – now worth some £5.4bn – are growing faster.

Wines comprise the most buoyant sector of the take-home market. Consumption per head has increased by 55 per cent over the past decade, while beer has declined by 9 per cent and consumption of spirits has remained static.

The grocery trade has benefited most from the take-home growth. It now accounts for 47 per cent of sales, with supermarkets dominating. Britain's two largest drinks retailers are J. Sainsbury and Tesco, each with just under 8 per cent of the market. The Co-op is next with 6.5 per cent.

Spending at specialist off-licences has increased by 66 per cent over the past seven years, and they now have a 42 per cent share of the market. Thresher, the Whitbread subsidiary, leads with 6.2 per cent.

Verdict on Off-Licences, Verdict Research, 112 High Holborn, London WC1V 6JS. £595.

Detergents squeeze

SALES OF liquid detergents, the fastest growing laundry product in the 1980s, are likely to peak early in this decade, according to a report published today by Euromonitor, the London-based market analyst.

Liquids are already being squeezed in the US by new products such as detergent pastes packaged in a water-soluble plastic pouch and multi-action sheets, which release pre-measured detergent, whitener and fabric softener in washing and drying cycles.

Textile Washing Preparations: The International Market, Euromonitor, 87-88 Turnmill Street, London EC1M 5QU. £1,250.

Spanish venture

GARDNER MERCHANT, the contract catering division of hotel group Trusthouse Forte, is expanding into Spain through a joint venture with the Paradis Group, a Barcelona-based catering company.

Christmas transport

NO LONDON buses or Underground trains will operate on Christmas Day. On Boxing Day there will be a special service on the Underground and about a third of bus routes will operate to special timetables.

Indexed National Savings attract biggest net inflow

By Sara Webb

NATIONAL SAVINGS raised £101.8m net in funding for the government last month.

The fifth issue of index-linked certificates attracted a net inflow of £121.7m which was the biggest net inflow of any of the National Savings products. Total receipts for index-linked certificates were £154.5m.

Index-linked certificates attract money from small investors because they offer a guaranteed tax-free return above the rate of inflation provided the money is invested for five years.

National Savings has recently launched an advertising campaign to increase awareness of its tax-free products, particularly among non-taxpayers such as retired couples and married women who now have their own tax allowance.

Fixed-interest Savings Certificates repaid £81.9m last month, due mainly to the fact that the mature certificates now offer a much less competitive interest rate.

The total invested in National Savings at November 30 was £36.21bn.

Ex-minister proposes state role for private schools

By Alison Smith

PRIVATE SCHOOLS should receive government money to join the state system and educate all pupils on the basis of ability, Mr George Walden, Conservative MP for Buckingham, says in a pamphlet published today.

Mr Walden, a former education minister, argues that the proposal would be an important part of breaking the monopoly of state-funded comprehensive schools. Other elements could be increasing numbers of schools opting out of local authority control and providing a greater spread of technology-based schools.

As the Tory party seeks to regain the political initiative on education, Mr Walden sets out his case in The Blocked Society – a pamphlet covering a range of topics for the Tory Reform Group, a Tory party pressure group. Patrons include Mr Kenneth Clarke, the new education secretary.

Private schools that chose their pupils through competitive examination, instead of by ability to pay fees, would perform better than their counterparts retaining the old system. The move would also impel more monied parents into an active role in state schools.

Mr Walden says education is the main "roadblock" in Britain. It suffers from too much deference towards the status quo in "irrational institutions, obsolete political structures and absurdist conventions".

He argues that if the UK were reduced to the status of a province in Europe, it would be through a failure to raise educational standards.

Mr Walden sees the educational industry as the main defenders of the existing position and calls for an external inquiry into teacher training colleges as well as an extension of the licensed teacher scheme, through which some trainees go straight into the classroom.

He also seeks an independent and upgraded schools inspectorate, more nursery education and higher pay for teachers.

Mr Walden's paper tackles other issues, such as giving the Bank of England powers over the money supply: he comments on the Tories' "curious dichotomy . . . that governments are the worst people to run business and the best to manage our money."

The Blocked Society. Tory Reform Group, Sheraton House, Castle Park, Cambridge CB3 0AX.

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Caution on home improvement groups

By Sara Webb

CONSUMERS should beware of special offers on home improvements or household purchases in the next few weeks, as several home improvement companies are on the verge of bankruptcy, the Householders' Association warned yesterday.

The association, a consumer protection group which monitors companies, said that customers should watch out for special Christmas and new year offers, for example on new kitchens or double glazing, especially if they were expected to hand over a deposit before receipt of goods.

Mr Jeremy Taylor, a director of the association, warned that in the present economic climate, many home-improvement companies were "teetering on the edge of receivership." He urged consumers to check whether a company provides any form of protection before buying goods on special offer.

Companies which go into receivership are not obliged to reimburse consumers money or supply goods under the contract, the Association warns.

The Householders' Association is running a consumer telephone helpline on 081 889-3333.

EC to study impact of defence cuts

By Ian Hamilton Fazey, Northern Correspondent

THE EUROPEAN Commission has ordered a study of the effect of defence industry closures in parts of Britain, Germany and the Netherlands as a first step to setting up a fund to help economies that are expected to suffer as the Cold War ends.

The study will cover three regions where defence spending is central to the local economy. They are Lancashire, Bremen in north-west Germany and Zaanstad in the Netherlands.

Lancashire's problems have already begun to emerge with the announcement last month of the impending closure of British Aerospace's Preston factory which makes Tornado fighter aircraft.

The EC study will be led by Lancashire Enterprises, the county's privatised economic development agency. Preliminary work shows how the defence market in the UK, Germany, Italy and the Netherlands will contract between 1990 and 1994, with cuts increasing from 1993 as armed forces are scaled down more rapidly.

Leading Nato nations will bear the brunt: the UK defence market will contract by 9 per cent within four years; Germany's by 19 per cent; Italy's by 14 per cent; and the Netherlands market by 8 per cent.

The effect of cuts will not be distributed evenly throughout each country. The exact impact has still to be calculated, because past secrecy about defence contracts means that there is no detailed analysis of where work is done.

Mr Jim Mason, chairman of Lancashire Enterprises, says a breakdown by type of spending and contracts to individual companies is needed to assess the local hardship that closures will bring.

Areas that will be hit hardest can be forecast from recently published government data on defence equipment spending, showing average per capita UK spending on equipment totalling £126 in 1988. Four economic regions were all above the average. In the south-west it was £242; in the north £211; in the south-east £178; and in the north-west £134. However, this does not mean that all will suffer equally.

DEFENCE SPENDING ON EQUIPMENT 1988

	£ per capita	Jobs†
S-West	242	25,000
North	211	21,000
S-East	178	71,000
N-West	134	19,000
Scotland	110	16,000
W Midlands	80	9,000
E Midlands	67	6,000
N Ireland	60	3,000
Yorks and Humberside	30	3,000
E Anglia	25	1,000
Wales	17	1,000
UK	128	175,000

† Direct employment

EUROPEAN DEFENCE MARKET ESTIMATES 1990-94, EC or NATO COUNTRIES ($bn)

	1990	1991	1992	1993	1994
UK	37.2	35.8	35.2	35.0	34.0
France	30.2	31.3	32.5	33.7	34.8
Germany	32.1	32.1	30.0	28.0	26.0
Italy	18.8	17.6	16.8	16.0	16.0
Spain	7.6	8.3	8.9	9.7	10.5
Netherlands	7.5	6.9	6.9	6.9	6.9
Norway	3.2	3.5	3.3	3.4	3.5
Belgium	2.8	2.9	2.9	2.9	2.9
Greece	2.7	2.9	3.2	3.6	3.9
Turkey	2.3	2.7	2.9	3.2	3.5
Denmark	1.9	1.9	1.9	1.9	2.0
Portugal	1.2	1.2	1.3	1.3	1.3
Totals	147.4	146.8	145.8	145.6	145.1

1989-90 prices and exchange rates. Totals may not sum because of rounding
Source: [illegible] Ltd/Lancashire Enterprises

For example, part of the north's contracts are for warship building Swan Hunter on Tyneside. The group has a full order book in a sector where the rundown will be less than in other military equipment.

By contrast, the VSEL submarine-building yard at Barrow-in-Furness, Cumbria, faces the loss of its main industry when the Trident programme ends.

The south-east has the largest individual regional slice of total spending, but it has a bigger and more diverse economy than anywhere else, accounting for 36 per cent of gross domestic product.

It will be much more difficult for redundant defence workers to find work in the north, south-west and north-west, where the economic base is narrower and where share of gdp is respectively 4.8 per cent, 7.6 per cent and 10.4 per cent.

Moreover, defence spending is concentrated within regions, producing potential blackspots. In the north-west, for example, Lancashire has at least 30,000 jobs directly or indirectly dependent on defence contracts.

Mr Michael Hynes, managing director of Lancashire Enterprises, says: "The local economy is very unbalanced and over-dependent on government contracts. There are an awful lot of sub-contractors, including many companies we have backed with our venture capital funds.

"We want an EC fund similar to those for the coal, steel, textile and fisheries closure areas. We are certainly going to need it to help fund things like business parks next door to defence contractors, investment schemes, counselling and similar initiatives."

The "buy local" campaigns of the last 10 years – which encouraged big companies to use nearby sub-contractors and suppliers to strengthen the local economic base – are likely to make things worse.

Mr Mason says the injection of EC funds into eastern Europe to promote market economies has been enough to prove a link between EC policy, the end of the Cold War and the knock-on effect upon defence industries.

Mr Hynes adds: "We also have to develop objective measures, such as 'dependency ratios', to gauge the effect on the jobs market. The relative number of vacancies to unemployed is a better indicator than the number of vacancies on its own."

Disclosures by the government of the size and nature of individual defence contracts with particular companies will also be important to pinpoint which factories are most at risk.

Preliminary work shows 11 leading British companies with a total of £8.5bn of defence sales in their latest annual accounts, led by BAe, GEC, Rolls-Royce, VSEL, Smiths Industries and Lucas.

In Germany, five companies – Daimler Benz, MBB, Rheinmetall, Siemens and the French-owned SEL – sold £4bn of defence equipment and services between them.

Italy's largest defence business was SNIA, the electronics and ordnance subsidiary of Fiat-controlled interests, while in the Netherlands, Philips alone is believed to have £1bn of defence sales.

Large companies which have benefited from defence contracts will also find themselves under pressure to help restructure local economies.

BAe is already talking to local authorities about programmes of assistance that will include counselling services, retraining and relocation together with subsidies for business start-ups by the self-employed.

NEWS IN BRIEF

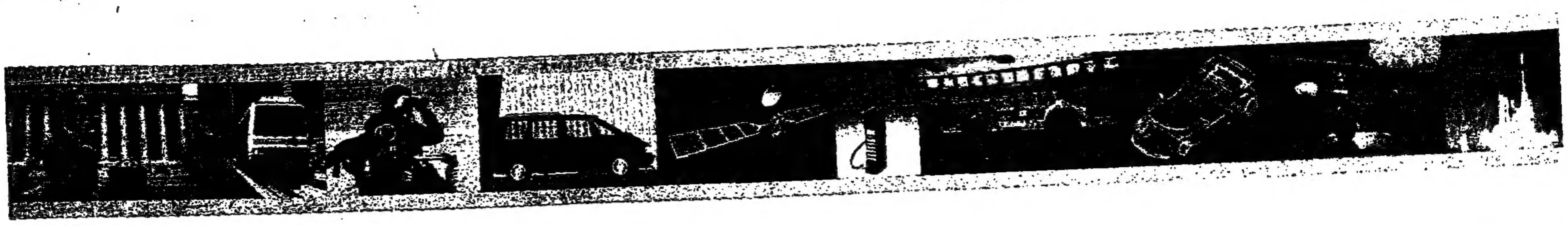
Average drinks bill is £1,000

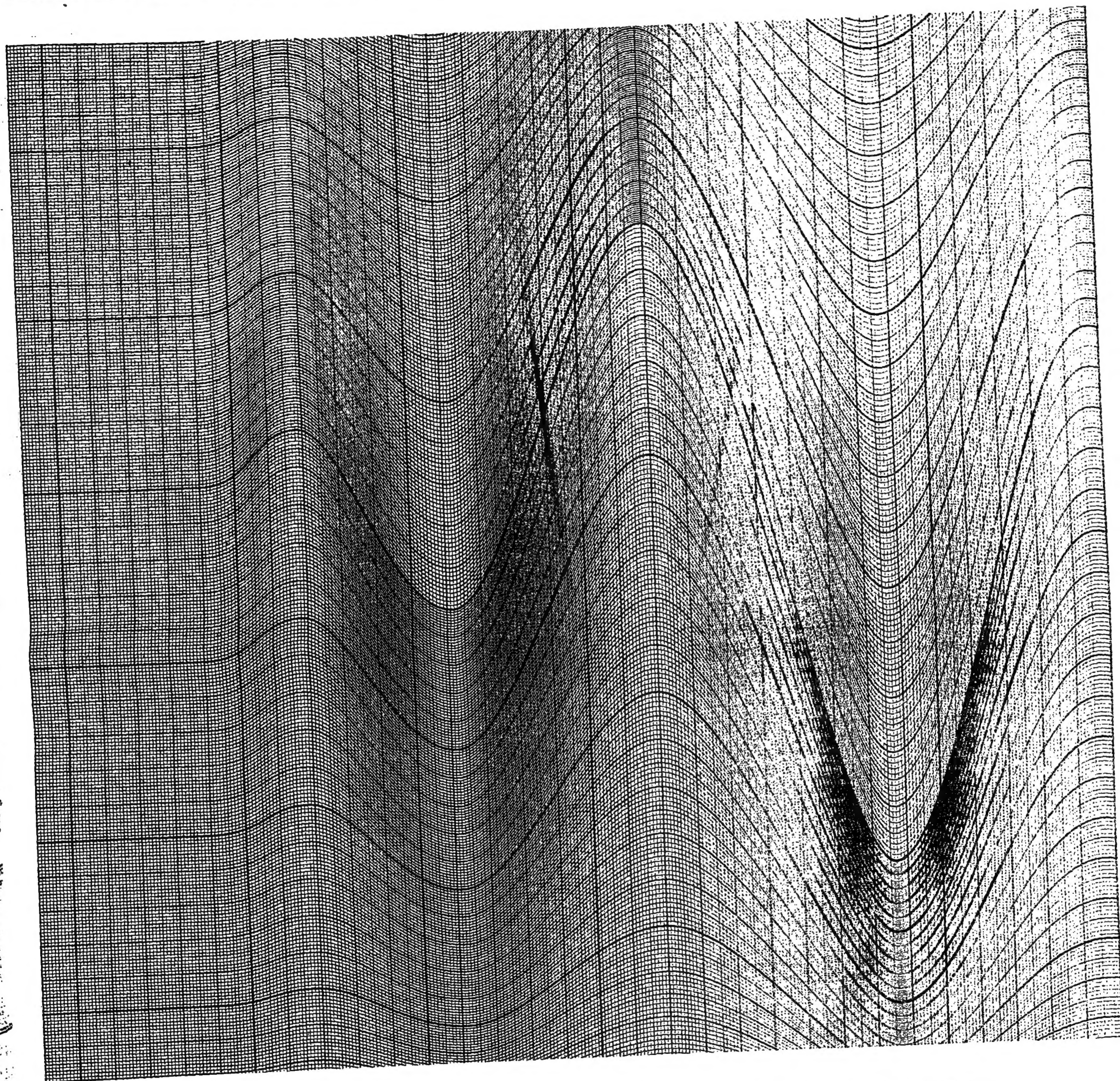
Detergents

Spanish

Christmas

fence cut





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UK NEWS

UK EMPLOYERS' ASSOCIATION REPORT

Outlook gloomy for manufacturing

By Peter Norman, Economics Correspondent

THE UK MANUFACTURING industry is gloomier about its production outlook than at any time in the past 10 years.

The latest monthly industrial trends inquiry from the Confederation of British Industry points to a sharp fall in manufacturing output in the new year.

It found that more companies expect output to fall in the next four months than in any survey since December 1980.

That was when the deep recession of the early 1980s was approaching its trough.

Mr David Wigglesworth, the chairman of the CBI's economic situation committee repeated the CBI's call for cuts in UK interest rates as soon as possible to encourage manufacturing investment.

The survey also provides strong evidence that the present sharp slowdown in the British economy is squeezing industry's profits.

The number of companies expecting to raise prices in the months ahead was the lowest December figure since 1980. The CBI surveyed 1,361 companies, responsible for about half of UK manufacturing employment and exports, between November 23 and December 12.

It found that order books, although marginally higher in December than in November, were "significantly below normal". Stocks of finished goods increased between November and December to their highest level since November 1982 and were more than adequate to meet expected demand.

Mr Wigglesworth said businesses are "facing up to a tough new year as they struggle to overcome the problems of recession."

He said that the disciplines imposed on industry by UK membership of the exchange rate mechanism of the European Monetary System "are clearly beginning to bite." He warned of "significantly higher job losses" unless companies manage to keep increases in unit costs down to two or three per cent.

"All of us in British industry must follow the example of those companies which have succeeded in meeting this tough standard of international competitiveness," Mr Wigglesworth said. "Otherwise investment will be cut back further, at just the wrong time ahead of 1992," the date for establishing the European single market.

The cost problems facing British industry were highlighted on Friday when the government reported that unit labour costs in manufacturing increased by 10 per cent in the three months ending October compared with the same period of 1989. The day before, department of employment figures had disclosed a 57,600 jump in November's seasonally adjusted jobless total to 1.76m.

Mr Wigglesworth said the intensity of competition was holding down price rises by industry. This is helping to combat inflation, but "the consequent squeeze on profits is becoming severe in many sectors," he warned.

The CBI report shows that only 14 per cent of companies surveyed expected to increase output in the next four months against 44 per cent which expected output to fall.

The balance between the two numbers indicates the trend and the latest survey was the sixth in succession to report falling output expectations. The 30 per cent balance of companies expecting output to fall compared with November's 23 per cent negative balance among manufacturers.

Only 12 per cent of companies reported that order books were "above normal" compared with 54 per cent that said they were "below normal".

The balance indicating below normal order books was little changed from the 44 per cent negative balances recorded in November and October, but marked a clear deterioration from the 11 per cent negative balance recorded in December last year.

Bank of England dampens hope of early cut in interest rates

By Jim McCallum

MR Robin Leigh-Pemberton, governor of the Bank of England, yesterday reinforced the government message that an early reduction in UK interest rates was unlikely.

In an interview on Channel 4 Mr Leigh-Pemberton said: "It is because our position in the (ERM) band is rather lower than I would like to see it that it is not possible immediately to respond, say, to better inflation figures . . . by lowering interest rates."

The governor's comments backed up the warning delivered last week by Mr Norman Lamont, chancellor of the exchequer, that despite signs of a deepening recession there could be no cut in base rates before the pound strengthened within the ERM.

Mr Leigh-Pemberton would not be drawn on how much sterling would have to appreciate before interest rates could be cut but said "the exchange rate will have to be confident and more healthy".

He said that interest rates would not be reduced for reasons of political expediency. "This is what is important - the market should see that the policy makers in this country are not helping themselves to interest rate falls before they are as objectively merited as they can possibly be."

He said he had disagreed with the government over the timing of the last cut in interest rates - the move from 15 per cent to 14 per cent on October 8 - which coincided with the full entry of sterling into the ERM.

"I have to say too that I felt that we were premature in allowing interest rates to go down on the day in question. I felt that we were taking our dividend a little before it was earned. I would have liked us to have been patient by a day or two."

Robin Leigh-Pemberton

The governor said he had written "as forcefully as he could" to the government outlining his disagreements over the timing of the last base rate cut.

But Mr Leigh-Pemberton was optimistic about the immediate economic prospects.

"We are somewhere near where the basic inflationary trend in the economy has been corrected," he said.

"Provided we are not too greedy in snatching the advantages which flow from that, I think we might be able to say that we will have a shallow recession out of which we have a recovery which will be soundly based."

MPs to vote on death sentence for treason

By Alison Smith

OPPONENTS OF the death penalty for treason are confident that they will succeed in replacing it with life imprisonment when MPs vote later on the issue today.

Though capital punishment remains a question on which MPs have a free vote Mr Kenneth Baker, the home secretary, is likely to argue that the decision on the proper sentence for treason should not be taken without a review of the offence itself.

In 1977 a report by a committee of lawyers advising the government said that the law on treason needed reform, but their recommendations have not been acted upon.

Though Mr Baker may now propose an urgent review of the law, Mr Peter Archer, the former Labour law officer who has led the attempt to abolish the death penalty completely, believes that there will still be enough MPs who are not swayed by that argument for his proposal to go through.

Nor does he see force in the suggestion that it would somehow be "risky", even at the time of the Gulf crisis, to replace a punishment which has not been used for more than 40 years.

All the proposals to restore capital punishment which will be taken today seem certain to be decisively defeated as they were in the previous two debates, in 1988 and in 1983.

Latest UK opinion polls hit early election hopes

Expectations of an early general election in February or March have been dampened by a series of opinion polls showing that the Conservatives' lead over Labour has fallen sharply within the past month.

The latest Harris poll, published in the Observer newspaper at the weekend, gave the Conservatives 44 per cent, leading Labour by four percentage points, while the Liberal Democrats trailed on 10 per cent.

The reduced scale of the lead is in line with the findings of two polls published earlier last week.

Though these leads represent a transformation in the parties' ratings compared with polls carried out while Mrs Margaret Thatcher was still prime minister and Labour had a consistent double-figure lead, they show a steep drop from the 11 points the Tories were ahead immediately after Mr John Major became prime minister.

There is clearly encouraging news for the Tories, however, in the high ratings Mr Major scores for qualities as varied as being tough, caring and good on Europe.

Nonetheless, the electoral volatility shown by the polls has added to the belief of some Tory MPs that the most likely timing of a general election is after the local elections in May, when party strategists will be able to plan on the basis of having seen how people actually voted.

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Bank Ltd.	14½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc	16	● Smith & Williamson Secs.	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank Credit & Comm	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of Cyprus	14	Girobank	14	Unibank plc	14
Bank of Ireland	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of India	14	HFC Bank plc	14	United Mizrahi Bank	14
Bank of Scotland	14	● Hambros Bank	14	Unity Trust Bank Plc	14
Banque Belge Ltd	14	Hampshire Trust Plc	14½	Western Trust	14
Barclays Bank	14	Heritable & Gen Inv Bnk	14	Westpac Bank Corp.	14
Benchmark Bank	14	● Hill Samuel	14	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	C. Hoare & Co.	14	Yorkshire Bank	14
● Brown Shipley	14	Hongkong & Shangh	14		
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bnk	14		
Clydesdale Bank	14	Midland Bank	14		
Comm.Bk.of London Plc	14	Mount Banking	14		
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CS First Boston

Now the Swiss call the shots

Martin Dickson assesses the financial problems confronting one of the premier US investment banks and analyses whether an injection of new management and fresh, foreign capital will be enough to restore self-confidence and profits

A grizzled pianist with a tired and doleful face is playing tunes of seasonal jollity in the marbled lobby of Park Avenue Plaza, a glassy green giant of an office block in mid-town Manhattan. Strains of "Rudolph the red-nosed reindeer" tinkle across the foyer and mingle with the soothing splash of an indoor waterfall.

But take a lift a few floors upwards and you will find Christmas cheer in distinctly short supply. For this is the home of CS First Boston, one of the premier investment banks in the US, where a dreadful 1990 is drawing to a wretched close.

Its severe financial problems – the result of loans which went sour – meant that last month the bank suffered the humiliation of a financial bail-out by its largest shareholder, CS Holdings, parent of Crédit Suisse, the big Swiss commercial bank.

An equity injection saw CS Holdings boost its stake in the business from 44.5 per cent to around 60 per cent, making CS First Boston the first large US investment bank to be majority-owned either by a foreign company or indeed by a commercial bank. The Swiss took board control and made clear that from now on they would be calling the shots.

Meanwhile, in the run up to Christmas, fresh job cuts are taking place at the bank's US operating subsidiary, First Boston Corporation, which is the cause of most of the group's problems. It is reducing staff by up to 200 out of a total of around 3,700 by the end of the year.

And for those left, Christmas will be distinctly leaner this time. Many employees are nursing huge losses from loans taken out to buy company stock. Year-end bonuses, comprising both cash and stock, have been cut sharply and many of them have unusual "handcuffs" attached: if your leave the company within two years you must hand back up to 40 per cent of the cash.

The year has also seen an unusually high turnover in First Boston Corporation's senior staff, particularly in the past few weeks. Many have been pushed towards the exit doors, but some have quit voluntarily. A significant number complain about heavy-handed management and an erosion of trust.

And from all sides comes a similar refrain; morale at the firm has taken a severe knock. "There has been an absolute meltdown," says one recent defector.

The question now is whether a combination of fresh Swiss capital and fresh management, in the form of Archie Cox, the recently-appointed head of the US unit, can restore both self-confidence and profits – against a background of the most difficult market for investment banking in at least a decade.

Cox, who is aged 50, 6 feet 7 inches tall and a cycling enthusiast, presents a sharp contrast to the management style of his predecessor, the suave, good-looking Jack Hennessy, whose tough-talking approach stirred up strong feelings inside First Boston Corporation. Hennessy has stepped back from the day-to-day running of the American operations to concentrate on co-ordinating CS First Boston's global operations. Cox, the son of the special prosecutor in the Watergate affair, is almost universally described as a "very nice man", a diplomat and team-builder, though some doubt his ability to inspire.

Optimists argue that an end to political in-fighting, coupled with First Boston's extremely strong international name, excellent client list, and the financial clout of Crédit Suisse, will eventually restore it to health. But some analysts fear that the management, hemmed in by conservatism at CS Holdings, may not display the flair needed to restore morale.

The securities house is hardly alone in going through hard times. All of Wall Street is suffering from the end of the 1980s securities industry boom and firms are all laying off staff in a painful unwinding of the financial excesses of the past 10 years.

But what makes First Boston's problems particularly arresting is the firm's lofty status, for it has long been one of the three top US global firms in investment banking and underwriting.

The central lesson of the current turmoil is that, unlike some rivals, its group culture and management systems have just not been sufficiently robust to contain the stresses of the 1980s takeover boom and its messy aftermath.

An even more damning verdict comes from Hans-Joerg Rudloff, the aggressive German head of Crédit Suisse First Boston (CSFB), the bank's London subsidiary, who is a long-time critic of the American operations. He recently described the management record in New York as one of "incompetence matched only by their arrogance."

For years a dull but very large underwriting house, First Boston emerged suddenly in the 1980s as one of America's investment banking powerhouses. It was helped particularly by two factors: the formation of CSFB, originally a London-based joint venture with Crédit Suisse, which became for a time the dominant firm in the booming Eurocapital market; and the team of Joe Perella and Bruce Wasserstein who turned the bank's tiny mergers and acquisitions department into one of the most successful takeover advisory teams of the decade.

John Hennessy (left) and Archie Cox: a sharp contrast in management styles

Yet for all its success, First Boston was constantly wracked by internal dissention over its future direction. In particular, there were increasing turf conflicts (which have echoes even now) between CSFB in London and the US operations, and there were tensions in New York between the traditional trading side of the business and Wasserstein and Perella's investment bankers.

Both issues reached a climax in 1988. First, Wasserstein and Perella quit to form their own investment banking business, taking with them some of the bank's top deal-makers and corporate clients. Then, in an attempt to solve the bickering with CSFB, and create a more coherently structured global business, a deal was struck with Crédit Suisse.

This created a new New York-based holding company, CS First Boston, which was 44.5 per cent owned by the Swiss (the rest owned by company insiders and institutional investors) and had three geographic legs: First Boston Corporation in the US, CSFB in Europe, and CS First Boston Pacific in Asia.

Having put the new structure in place, Peter Buchanan, the chief executive, retired in the autumn of last year, handing over the job to John Hennessy, 54, who had spent most of the 1980s in London as chief executive of CSFB – though many credited its success to the hands-on Rudloff.

Almost immediately, Hennessy found himself grappling with a horrific financial problem, in the form of "bridge loans" – a type of financing concocted in the mid-1980s by investment banks hungry for takeover fees; the banks themselves advanced loans to corporate clients to provide quick bid financing, recouping the money later through an issue of junk bonds.

When the bottom fell out of the junk bond market in the autumn of 1989, First Boston found itself sitting on $1.2bn of potentially problematic bridge loans and facing a Wall Street crisis of confidence in the strength of its finances.

CS Holdings finally came to the rescue last month, injecting some $300m of new equity into the firm and shunting most of the bridging loans into a limited partnership.

This removal of financial uncertainty will go some way to help morale, but the firm's self-confidence has also suffered from considerable upheavals in its top management over the past year, and these wounds may take longer to heal.

Hennessy, after taking over in the autumn of 1989, emerged quickly as a ruthless and controversial manager. First, he removed the head of First Boston Corporation, the US business, to run the show himself, and then he began to axe jobs. Two months ago he told the FT: "If people are not professional you should be ruthless. Too many compromises were made in the past and there were too many surprises. There was not enough accountability."

Few could quarrel with his analysis of past mistakes, but critics claim that his abrasive style compounded the morale problem.

And they question his judgment and sense of strategy, pointing, for example, to his sweeping changes in the bond-trading department at the start of this year. There, he axed the top tier of staff and replaced them with an entire team of outsiders from the bond boutique of Voute, Coats Stuart & O'Grady, headed by the eponymous William Voute.

Voute and some of his colleagues had at one time worked at Salomon Brothers, arguably the toughest and most successful bond-trading house, but they had a mixed reputation.

Trading floor cultures are delicate and Hennessy's move set First Boston's seething with animosities.

Last month, however, Voute and his two top lieutenants suddenly parted company with First Boston. Says one insider: "There was simply too big a clash of cultures."

The departures – an apparent rebuff to Hennessy's personnel policy – followed Cox's sudden and surprising elevation in September to be chief executive of the US unit. He had only joined First Boston last May, as an advisor on international strategy, after spending 10 years as head of Morgan Stanley's London operations and then retiring from banking in 1988.

Some Wall Street analysts have suggested that Cox's rise stemmed from concern at Crédit Suisse over the group's recent performance. But Rainer Gut, chairman of CS holdings, is on record as denying this.

Whatever the truth, Cox is left with an extremely tough job. CS First Boston made only $11m in 1989 – mainly because of the US problems – and this year its loan loss provisions will plunge it heavily into the red.

On the costs side of the equation, it has been slashing away at staff and overheads; the latest round of job losses will mean it has cut the number of employees by between some 600 and 700 in 1990, to less than 3,500.

But on the revenue side, in its traditional areas of greatest strength – underwriting and takeover work – the house has slipped a few notches down the investment banking league tables this year.

Furthermore, critics argue that the bank has not been as nimble as some of its rivals in entering potentially important profit areas for the 1990s, such as fund management, foreign exchange dealings and some derivative products.

Cox acknowledges there has been some league slippage, but he does not believe the loss of market share is significant in any area. Certainly, league positions can change very rapidly, yet consistently good performance depends crucially on three intertwining factors – the quality of a bank's staff, the strength of its capital resources and the length of its client list. And at First Boston there are question marks over all three.

Despite all the recent turmoil, Cox insists that the firm's clients have been "very loyal", although rival houses claim to be picking up bits of its business.

Wall Street also questions whether the bank's capital resources – which will have shrunk from some $840m at the end of last year to less than $600m, are sufficient to support a large, integrated house. Cox believes that it is ar the presebt time, but critics say that sooner or later CS may have to choose between pumping in even more capital or retreating from capital intensive securities businesses to more profitable niches.

As for staff, Cox insists that getting good new employees has "not been a problem so far. We are attracting the talent we want." But others on Wall Street question whether First Boston will be able to retain some of its best performers.

Cox denies suggestions that the CS takeover means pay levels will drop to those more common in commercial banks, although he adds that compensation now "will relate more directly to profitability." That means a lot lower than in the past. True, the rest of Wall Street is also trimming bonuses, but can First Boston's pay structure remain competitive?

Wall Street analysts also question whether the CS takeover will be entirely beneficial to the bank strategically, for to get Federal Reserve approval for the deal, First Boston has had to give up a number of business practices, such as bridging loans and taking equity stakes of over 25 per cent in other companies.

These were all important tactics in the 1980s takeover boom, but First Boston executives insist that the ban is of little importance in the much more conservative climate of the 1990s. It certainly does not want to make more bridge loans.

Some rivals disagree: "Investment banking is living at the margin," says one. "It means risk and innovation. Now they're just a subsidiary of a commercial bank. That's the strategic line they've crossed."

Certainly, no major commercial bank takeovers of investment banks around the world have yet been an unqualified success, and the fact that this one was precipitated by financial crisis hardly augurs well. Still, First Boston and Crédit Suisse do have the advantage of a relationship stretching back many years and First Boston's powerful international presence.

The nice Mr Cox might yet prove the sceptics wrong, but he has an immense job on his hands.

LEGAL COLUMN

Big New York firms launch drive into eastern Europe

By Robert Rice, Legal Correspondent

THE EXPANSION of US law firms into Europe peaked early this year. Now it is entering a new, slower phase and, broadly speaking, those that intend to come have already arrived.

The heavy influx of US lawyers into London, Paris and particularly Brussels over the past two years was prompted very much by the approaching single European market.

A 1992 publicity bandwagon began to roll across the US in 1988. Chief executive officers of US corporations began a non-stop round of conferences and seminars on the single market. Then they began to ask their in-house lawyers what their companies were doing about it. The law firms became interested in the single European market once it became important to the chief executive officers.

The picture has changed markedly, however, since many of them initially thought of opening offices in Europe. The unification of Germany and the opportunities now available to western investors in the emerging economies of central and eastern Europe have led to a re-ordering of priorities for all concerned.

The strategies of US law firms towards Europe have become both more sophisticated and more diverse. The lemming-like response which the single market engendered has largely disappeared, and, perhaps inevitably, it is the firms which have been long established in London and Paris which head the drive eastwards.

Take three New York firms: Shearman & Sterling, Simpson Thacher & Bartlett and Debevoise & Plimpton. They differ in size and odd details of emphasis but the spread of their practices is remarkably similar (Shearman & Sterling has 136 partners and 624 lawyers, Simpson Thacher 97 partners and 442 lawyers and Debevoise 86 partners and 349 lawyers).

Simpson Thacher, for example, benefits from recognised expertise in the merchant banking field which has grown out of the firm's broader experience in mergers and acquisitions, commercial and investment banking, corporate finance, restructurings, project finance, bankruptcy and general corporate work.

The firm is one of the leading legal advisers in leveraged buy-outs. Through its representation of Kohlberg Kravis Roberts (KKR) and other specialist LBO, Simpson Thacher has engineered many of the largest leveraged acquisitions, such as that of RJR Nabisco.

Its links with Manufacturers Hanover Trust and similar banks have meant that Simpson Thacher has regularly served as leading legal adviser to banks on large syndicated acquisition financings.

Debevoise specialises in mergers and acquisitions, LBOs, cross-border acquisitions and related financings, securities and banking regulation, anti-trust, restructurings and general corporate work.

Entrants are pursuing markedly different strategies

Among Debevoise's clients are a number of investment banks: Citibank, Commerzbank, Morgan Guaranty and Westpac Banking; it also represents three specialist LBO firms: Clayton & Dubilier, Kelso & Co and Kohlberg & Co.

Shearman & Sterling, the biggest of the three firms, also has a similar profile – mergers and acquisitions, banking, corporate finance, bankruptcy and workouts, and general corporate work. The firm prides itself on its reputation in cross-border transactions.

In American Lawyer magazine's corporate scorecard for the biggest deal makers of 1989, Simpson Thacher came fourth in the league table for mergers and acquisitions and Shearman & Sterling fifth.

Those two firms also share clients in the banking field, and both act for The First Boston Corporation and Wasserstein Perella. Among Shearman's other banking clients are Citibank (in common with Debevoise), Merrill Lynch Capital Markets, Morgan Grenfell and Morgan Stanley.

But in spite of the many similarities, each firm is pursuing markedly different strategies in Europe.

Shearman & Sterling, following in the footsteps of the UK firms Clifford Chance and Freshfields, is to open offices in Frankfurt and Dusseldorf in the new year. The German operation will be headed by Mr Georg Thoma, a former associate lawyer with Shearman who has built up an international corporate practice in Dusseldorf as a partner in Galler Meyer-Landrut Miller.

According to Mr David McCabe, a senior international partner in Shearman's mergers and acquisitions division, the move is part of the firm's strategy of being truly international rather than a US firm with overseas offices.

Shearman & Sterling does not, however, subscribe to the theory that by the turn of the century legal services around the globe will be dominated by eight or 10 very big law firms. Berlin may be the next obvious move, but the German offices do not represent part of a strategy to open branch offices all over Europe.

The move into Germany is driven by the increase in cross-border transactions that form an essential part of Shearman's practice throughout Europe. The firm is committed to developing domestic law capability in several countries, Mr McCabe says.

Germany was an obvious choice for Shearman because of close ties since the end of the second world war. In the US the firm acts for numerous German financial and industrial companies. It is, for example, advising Continental AG, the German tyre manufacturer, about the Pirelli bid for Continental.

Mr McCabe also sees the German offices as launch pads for its east European practice. The Frankfurt and Dusseldorf offices are expected to have up to 15 lawyers by the end of 1991.

Debevoise & Plimpton, by contrast, has decided to leapfrog Germany and set up an eastern Europe office in Budapest. After Baker & McKenzie, which has been in Hungary for more than two years, Debevoise is only the second important western firm to open an office there.

The Budapest office will be staffed by three Debevoise lawyers. Mr Andrew Sommer is a mergers and acquisitions lawyer from the London office, Ms Katherine Ashton is from New York and Ms Eva Guylas is a Hungarian lawyer. The firm has also established an association or "correspondent" relationship with the International Business Law Office in Budapest. The office has eight lawyers concentrating on commercial and company law.

An associate relationship has been established with Dr Bohuslav Klein in Prague, who entered a similar association with the UK firm S.J. Berwin two weeks ago. Debevoise is looking for similar relationships with lawyers in Poland and the Soviet Union.

Mr Edward Perell, head of Debevoise's London office, says the Hungarian office is a "natural outgrowth of the firm's practice," particularly in the area of complex cross-border transactions.

He says that Hungary is ahead of the field in the race to establish the right legal and financial framework for encouraging foreign investment. He expects the Budapest operation to support itself within a couple of years.

"We feel we have to be there," he says. "It is not enough simply to be in London and Paris. It is the 'logical window' into central and Eastern Europe."

Simpson Thacher's strategy is different again. The firm has had an office in London for 12 years, and recently decided to increase the number of lawyers there from three to seven with capacity to increase to 15.

The firm is keen to provide more services to clients in Europe, but believes that the best way to achieve this is through London.

Frankfurt might have seemed a more obvious choice than London for a firm with such a strong banking practice. But Mr Richard Beattie, who is widely tipped to become Simpson Thacher's chairman in the new year, says there were several reasons for choosing London. They are that the firm had an office in London anyway, it believed that London would be the financial centre of Europe and most of its clients with European operations were based in London.

Simpson Thacher is also against competing with local lawyers on their home territory. It believes that the best way to provide a good service is to assemble a team for a job by using the best local firms.

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THE WEEK AHEAD

ECONOMICS

Latest data unlikely to dispel gloom

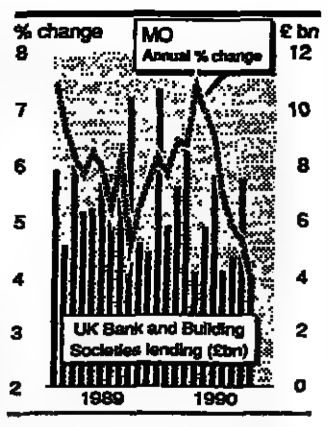
By Peter Norman, Economics Correspondent

A HEAVY WEEK for statistics on both sides of the Atlantic is unlikely to lift the gloom prompted by the increasingly strong evidence that the UK is in a serious recession and that the US economy is slowing first.

In Britain, the government survey of investment intentions on Wednesday will be a closely watched indicator. Thursday's money supply figures for November are expected to confirm the rapid deceleration in the annual growth of M0, the narrow measure of money supply, that has become apparent from the Bank of England's recent weekly returns.

Another talking point will be the level of bank and building society lending.

The consensus of analysts' forecasts compiled by MMS International, the financial research company, suggests a £4.2bn increase in November after £4.6bn in October. However, the November estimates cover a fairly wide range from £3.5bn to £5.3bn.



Other events and statistics this week – with median market forecasts from MMS International in brackets – include:

Today: EC economics and finance ministers meet in Brussels.

Tomorrow: US, Federal Open Market Committee meets, November consumer price index (up 0.3 per cent), November real earnings, October merchandise trade balance (minus $9.6bn), exports ($32.5bn), imports ($42.3bn). Canada, October trade balance (C$1.1bn). Japan, November money supply (up annual 11.2 per cent), October personal income and consumption expenditure. UK, November PSBR (£500m). France, October industrial production (down 0.3 per cent on month).

Wednesday: US, third quarter final GNP (up 1.7 per cent), GNP deflator (4 per cent), after tax corporate profits (up 6.7 per cent), November housing starts (1m) and building permits. UK, third quarter provisional GDP (down 1 per cent), government autumn survey of investment intentions. Canada, October unfilled orders (down 1 per cent).

Thursday: US, November personal income (up 0.2 per cent), personal consumption expenditure (up 0.1 per cent), money supply for week ended Dec 10. UK, November M0 (down 0.2 per cent on month, up 3.1 per cent on year), M4 (up 0.7 per cent on month, 13.7 per cent on year), bank and building society lending (£4.2bn). France, Bank of France announces 1991 monetary targets, Paris-based Organisation for Economic Co-operation and Development publishes twice yearly Economic Outlook. Australia, October housing finance (up 1.75 per cent).

Friday: UK, November trade balance (minus £900m), current account (minus £800m), November building society commitments (£3.2bn), cyclical indicators. France, November trade balance (minus FF6.5bn). US, FOMC releases minutes of Nov 13 meeting, November Treasury budget (£42bn). Canada, October retail sales (down 0.6 per cent), wholesale trade, average weekly earnings, building permits.

Peter Norman

UK COMPANIES

ONLY a handful of companies are reporting this week as the City winds down for Christmas.

The results season for the 10 water companies will draw to a close after Southern and Wessex have announced results for the six months to end-September today and tomorrow respectively.

The range of analysts' expectations for Southern Water's pre-tax profits is £45-50m.

Wessex Water is likely to attract more attention at the moment, following the news last week that Lyonnaise des Eaux Dumez, the French company, has sold its 6 per cent stake.

It is expected to announce £30-35m pre-tax profits.

Dividend increases for both companies should be around 15 per cent, about the average for the 10.

Yorkshire Television reports tomorrow its last full results before bidding for its new franchise in April.

The company turned in better than expected pre-tax profits of just over £11m in the six months to March.

Analysts are looking for £18m-£20m for the full year.

Gestetner, the office equipment and photocopier distributor, is expected to report pre-tax profits of just over £50m today, for the year to October 30.

Most interest will centre on how the company is progressing with its integration of the non-US operations of Nashua Office systems, for which it paid £90.6m in April.

Other companies reporting include Triplex Lloyd, the foundries and engineering group, NFC, the freight and logistics specialists, and United Scientific, the maker of armoured vehicles.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Amber Day, Howard Hotel, Temple Place, W.C., 11.00
Drayton Cons. Tst., 11 Devonshire Square, 10.00
Govett Strategic Inv. Tst., Shackleton House, 4 Battle Bridge Lane, S.E., 12.00
BOARD MEETINGS
Finals;
Electronic Data Processing
Gestetner
Interims:
Brasway
Mosaic Invs.
Southern Water
Worthington (A.J.)

■ TOMORROW
COMPANY MEETINGS:
Barrett (Henry), The Victoria Hotel, Bradford, 11.00
F & C Eurotrust, Exchange House, Primrose Street, E.C., 12.15
BOARD MEETINGS
Finals;
City Site Estates
Triplex Lloyd
Midlands Radio
Yorkshire Television Hldgs.
Interims;
NFC
Ensor Hldgs.
Gold Greenless Trott
Levercrest
Thornton (G. W.)
Wessex Water
Westpool Inv. Tst.

■ WEDNESDAY DECEMBER 19
COMPANY MEETINGS
Clydesdale Inv. Tst., 30 Finsbury Circus, E., 12.00
BOARD MEETINGS
Finals;
United Scientific
Interims;
British Building & Eng. Appliances
Flextech
West Tel.

■ THURSDAY DECEMBER 20
COMPANY MEETINGS
British Asstes Tst., 1 Charlotte Square, Edinburgh, 12.30
Heritage, Waterden Road, Stratford, 9.00
Manganese Bronze Hldgs., 1 Love Lane, E.C., 12.00
Oceonics, Chartered Insurance Institute, 20 Aldermanbury, E.C., 10.30
Savage, Chartered Insurance Institute, 20 Aldermanbury, E.C., 10.05
Scottish Cities Inv. Tst., E.C., 12.00
Sheafbank Property Tst., Holiday Inn Crowne Plaza, Manchester, 11.00
BOARD MEETINGS
Finals;
Abbey Panels Inv.
EFG
Interims; TGI

■ FRIDAY DECEMBER 21
COMPANY MEETINGS
Bailey (C. H.), Bute Dry Dock, Cardiff, 1.30
Lowland Inv., 3 Finsbury Avenue, E.C., 2.30
Rosehaugh, The Drawing Room, Claridges, Brook Street, W., 9.15
Strong & Fisher, 41 Tower Hill, E.C., 10.00
BOARD MEETINGS
Finals;
Kelsey
Interims;
Abtrust Scotland Inv.

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Bremner 0.5p
Edencorp Leisure
Elys (Wimbledon) 1.5p
FPL 59cts.
Fleming Japanese Inv. Tst. 0.75p
Harrisons & Crosfield 3.6p
Honeywell 75cts.
Land Securities 5.5p
NFC 1.15p
Pacer Systems 3cts.
Prestwick Hldgs. 1p
RTZ Corp. (Reg.) 6p
Do. (Br.) 6p
Santander Financial Issuances Sub. Und. Var. Rate Nts. $418.92
Senior Eng. 9⅛% Uns. Ln. 94/99 4.6875pc.
Shandwick 2.61p
Smart (J.) & Co. 5.25p
Thompson Corp. 11.3cts.
Western Deep Levels 12% Uns. Debs. 86/93 6pc.

■ TOMORROW
Forsmarks Kraftgrupp AB 6¼% Gtd. Nts. 1992 3.125pc.
GR Hldgs. 1.75p
Italian Intl. Bank Sub. Fltg. Rate Nts. 1996 $435.28
Limited Inc. 6cts.

■ WEDNESDAY DECEMBER 19
Ambrose Inv. Tst. 5.82p
CNA Gallo 13cts.
CSR 16cts.
Clayform Props. 2p
F & C Eurotrust 2.25p
Halliburton 25cts.
Leeds Permanent Bldg. Soc. Fltg. Rate Nts. 1996 £375.83
Linton Park 2.5p
Nationwide Anglia Bldg. Soc. Sub. Fltg. Rate Nts. 2004 £361.76
Rechem Environmental Servs. 4.5p
Stanhope Props. 0.1p

■ THURSDAY DECEMBER 20
Alcan Aluminium 28cts.
Drayton English & Intl. Tst. 0.9p
East Surrey Water 3p
Enron Corp. 62cts.
Essex Furniture 1p
Essex Water Co. 8% Deb. 91/93 4pc.
Do. 10% Deb. 92/94 5pc.
Do. 10½% Deb. 94/96 5.25pc.
Do. 4% Perp. Deb. 2pc.
Do. 3½% Perp. Deb. 1.75pc.
Do. 7¾% Deb. 91/93 3.875pc.
Do. 5% Deb. 86/91 2.5pc.
Do. 5% Perp. Deb. 2.5pc.
GUS 23.5p
Do. A 23.5p
Industrial Credit & Inv. Corp. of India Fltg. Rate Nts. 1991 $219.22
Manganese Bronze Hldgs. 4.5p
Marine Midland Banks Fltg. Rate Sub. Nts. 2000 $211.70
Mount Charlotte Invs. 10¾% 1st Mtg. Deb. 2014 5.375pc.
National & Provincial Bldg. Soc. 6.4% Nts. 1993 3.2pc.
News Intl. Gtd. Fltg. Rate Nts. 1991 $213.28
Nippon Telegraph & Telephone 8½% Nts. 1996 4.25pc.
Pfizer 60cts.
Riggs National Corp. Fltg. Rate Sub. Nts. 1996 $213.28
Sanwa Intl. Finance 9⅛% Gtd. Nts. 1996 4.5875pc.
Scottish Cities Inv. Tst. 20p
Do. A NV 20p
Standard Chartered Und. Prom Cap. Fltg. Rate Nts. £188.55
Tokyo Electric Power 9⅝% Nts. 1996 9.625pc.
Do. 10⅝% Nts. 10.625pc.
Unilever NV Fl.1.44

■ FRIDAY DECEMBER 21
Amber Day 1.3p
American Cyanamid 33.75cts.
American Intl. 11cts.
Blue Circle Inds. 10½% Bds. 2005 5.25pc.
Bowater 16¼% Nts. 1992 8.125pc.
Citicorp Fltg Rate Nts. 19/9/96 $208.54
Drayton Cons. Tst. 12.75p
FR 4.2% 2nd Prf. 2.1p
Gleves 1.5p
Great Western Resources 3p
Gresham House 3p
Greyfriars Inv. 4p
Hercules 56cts.
Italy (Rep. of) Fltg. Rate. Nts. 2000 $425.73
Midland Bank Und. Fltg. Rate. Nts. $441.61
Overseas Inv. Tst. 1.65p
Portsmouth & Sunderland Newspapers 2.6p
Riverview Rubber Estates Berhad M$0.10

■ SATURDAY DECEMBER 22
LASMO 10⅜% Deb. 2009 5.1875pc.

PARLIAMENTARY DIARY

■ MONDAY
Commons:
Committee stage of the Criminal Justice Bill: New clauses on capital punishment.
Lords:
Debate on developments in the Gulf.
Select committees:
Public accounts – Subject, financial support for the elderly. Witness: Sir Michael Partridge (Room 16, 4.30 pm).

■ TOMORROW
Commons:
Atomic Weapons Establishment Bill, second reading. Debate on EC document on research and technological development programme in the field of human capital and mobility. Opposed private business from 7 pm.
Lords: Gaming (Amendment) Bill, third reading. Natural Heritage (Scotland) Bill, report stage. Question to government on EC Commission proposal for a directive on voting rights for Community nationals in local elections in their state of residence.
Select committees:
Trade and Industry – subject, sale of Rover group to British Aerospace. Witness: Sir Peter Greyson, DTI. (Room 15, 10.30 am).
Transport – subject, urban transport – light rail option. Witness: Roger Freeman, MP, Public Transport Minister (Room 17, 4.15 pm).

■ WEDNESDAY
Commons:
Motion for Christmas adjournment. Consolidated Fund Bill.
Lords:
Debate on situation in Latin America. Debate on homelessness in Britain.
Select committees:
Environment – subject, indoor pollution. Witnesses: ASH; British-American Tobacco (Room 8, 10.30 am).
Foreign Affairs – subject, southern Africa. Witness: Rt Hon Douglas Hurd, MP, Foreign Secretary (Room 6, 10.30 am).
Trade and Industry – subject, Securities and Investments Board. Witness: David Walker, chairman, SIB (Room 15, 10.45 am).
Parliamentary Commissioner for Administration – subject, annual report of the health service commissioner for 1990. Witness: Mr W. Reid, Health Service Commissioner (Room 19, 11 am).
Public Accounts – subject, new British Library. Witnesses: Mr A. Brown, Property Services Agency; Mr K. Cooper, British Library; and Mr C. Henderson, Office of Arts and Libraries (Room 8, 4.15 pm).

■ THURSDAY
Commons:
Debates on the motion for the adjournment.
Lords:
Namibia Bill, third reading. Civil Jurisdiction and Judgments Bill, second reading. Caravans (Standard Community Charge and Rating) Bill, second reading. British Railways (No 3) Bill, third reading. Question to government on the report by the chief inspector of prisons on HM Prison, Leeds.

APPOINTMENTS

Executive directors of Vickers

■ VICKERS has appointed Mr Gerald Boxall *(left)* and Mr Peter Ward *(right)* as executive directors from January 1. Mr Boxall is chairman and chief executive of Vickers Defence Systems, and Mr Ward is chief executive and managing director of Rolls-Royce Motor Cars, posts they will retain.

■ Mr Peter Moxon has been appointed director, human resources for MOUNTLEIGH GROUP from February 1. He joins from his own consultancy, and was, until 1986, international human resources director at General Electric Company (USA).

■ Sir Bob Reid, chairman of British Rail, is to become chairman of the council of the LONDON ENTERPRISE AGENCY in succession to Sir John Quinton.

■ Mr Hugh Prior, chief executive and deputy chairman of Winchester Bowring, has been appointed a director of Guy Carpenter & Company, Inc, New York. Both are MARSH & McLENNAN companies.

■ THE ASSOCIATION OF BRITISH INDEPENDENT OIL EXPLORATION COMPANIES (BRINDEX) has appointed as chairman Mr Roland C. Shaw of Premier Consolidated Oilfields.

■ BURNFIELD has appointed Mr Glynne Clay as a non-executive director. He is managing director of N.M. Rothschild & Sons (Wales), and chairman of Chepstow Racecourse.

■ CLAY & PARTNERS, consulting actuaries, has appointed Mr David Nutting as a partner.

REDLAND ROOF TILES has appointed Mr Kevin Connolly *(pictured)* as financial director. He was financial director of Redland Plasterboard.

■ Mr Nigel Orr has been appointed managing director of SR Computer Services, a subsidiary of SYSTEMS RELIABILITY HOLDINGS. He was director of international support and general manager in France with Granada Computer Services.

■ The 1991 president of the HOUSE BUILDERS FEDERATION is Mr Terry Upsall, chairman of Beazer Europe and Overseas, and a director of Beazer.

■ Mr Robert Jenkins has been appointed executive director, European development, at MIDLAND MONTAGU VENTURES. He joins from Charterhouse Development Capital.

■ Mr Harry Brown has been appointed general manager and underwriter at CREDIT AND GUARANTEE INSURANCE COMPANY. Mr Victor Fowler, managing director and underwriter, is retiring.

CONSTRUCTION CONTRACTS

£70m Sheffield project

The urban renewal division of NORWEST HOLST DEVELOPMENTS has been selected by Sheffield Development Corporation, Sheffield City Council and British Waterways as the preferred developer for the £70m Sheffield Canal Basin redevelopment scheme.

Located just off the A57 near Park Square, the development will offer a mixture of commercial and residential accommodation as well as leisure facilities and car parking.

Norwest Holst's scheme, which will create 2,500 jobs, includes a large range of residential units with one, two and three bedroom apartments and some traditional starter homes. Half of the 120 units may be available at affordable market rents via housing associations or through a Business Expansion Scheme. With the remainder for sale, a mix of "owner occupier" and rented accommodation will be created, generating a small local community with a sense of identity.

The commercial element of the scheme has been designed to provide a group of buildings built to the highest standards of specification.

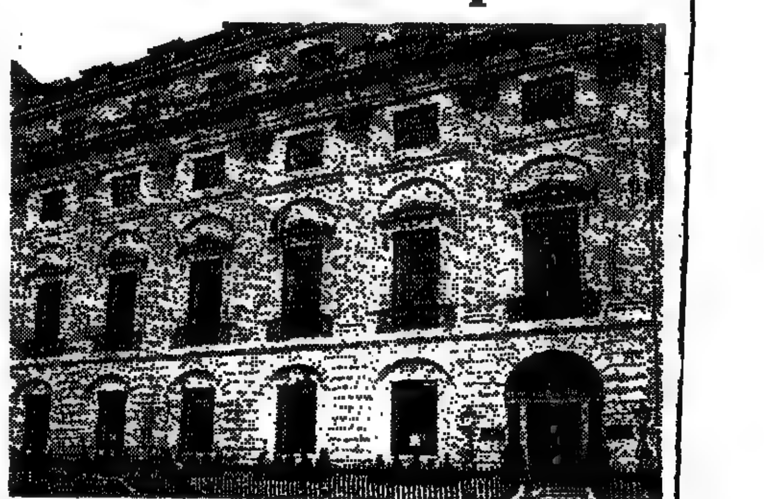
The regeneration of the Canal Basin will include a Copthorne hotel, a pub, petrol station, motel and family restaurant. The project's architect is Seifert Carey Jones.

Headquarters for Grand Metropolitan

TRY GROUP's order book has been boosted by orders totalling £19m. The Try Build subsidiary contributes £12.7m with a range of contracts in London and the South.

At the head of the list is a fitting out contract at 20 St. James's Square. The building is to be the headquarters for Grand Metropolitan and will be ready for occupation in just 12 weeks.

In addition to lift works being carried out for Pearl Assurance at Commonwealth House in London, Try Build has been awarded a £2.1m contract to clean and redecorate the facades of the building together with the refurbishment of five floors.



The new London headquarters of Grand Metropolitan

At Marlow, in Buckinghamshire, the company has started work on the 18 bedroom extension to the Compleat Angler Hotel at £1.19m for Trusthouse Forte.

Further three-year maintenance term contracts have been awarded by the Department of the Environment, Property Services Agency for the Larkhill area (£1.95m), Winchester and Worthydown (£588,000) and Camberley/Blackdown area (£900,000).

Two term contracts have also been gained from the Metropolitan Police worth £1.2m.

Try Construction has won three contracts worth £6.43m. Work comprises a £3.77m headquarters for the Guide Dogs for the Blind Association in Reading, offices in Slough for Windsorian World Travel (£1.27m) and refurbishment work at the Tate Gallery, valued at £1.39m.

Cheque clearing centre in Southwark

TEAM has been appointed as management contractor for the £11m refurbishment and conversion of a 100,000 sq ft printing works in Southwark, London SE, into a high-technology, electronic cheque clearing centre for TSB Bank.

The one-year contract includes the installation, on four of the building's five floors, of computer suites, air conditioning, data cabling, raised floors, suspended ceilings and restaurant facilities.

Externally there is to be extensive curtain walling and glazing.

Bristol business park

The latest in a series of contracts awarded to SIR ROBERT McALPINE AND SONS by Arlington Securities are for the construction of two buildings on its Aztec West Business Park near Bristol.

The largest, a £2.37m design and build contract, is for a two-storey, centrally-heated, high-technology building with a total floor area of 3000 sq metres.

Work includes the provision of car parking for 150 vehicles and landscaping.

The other building is an office/warehouse building providing a total floor area of 1500 sq metres. This will be of steel frame construction on concrete slab foundations. Both projects are due for completion in September 1991.

The Country Wife

MERMAID THEATRE

Perhaps as the title implies, *The Country Wife* takes a while to warm up – a good half an hour – but develops into a splendid romp and you still see why for generations it was regarded as one of the best of the restoration comedies, but also a problem play.

Wycherley's work is not quite as nasty as it seems at first sight – all sex and no style. It also has a streak of romanticism. The trouble is that it is really two plays rolled into one.

It starts with a man called Horner who has it put about that, as a result of some Anglo-French disaster, he has become sexually impotent.

This is in order to gain easier access to women. However, Horner's trick adds relatively little to the main theme: there was an 18th century version of the play which omitted him altogether and was therefore decently shorter.

The fact is that Wycherley's women would probably have succumbed to Horner even without his elaborate deception, just as they tend to give themselves to almost anyone in trousers provided he is not their husband. However, and on this rests Wycherley's reputation as a moralist, there is true love. A character called Harcourt falls at first glance for the sophisticated and liberally educated Alithea, and although she initially prefers a society fop, Harcourt wins through.

One of the merits of this production, directed by Richard Trethowan, is that the Harcourt-Alithea attraction is singled out from the rest as soon as they meet. It would be perfectly possible to play the piece as if they were much the same as the others: similar wigs, similar costumes and going in for the same sort of scheming. Trethowan's direction manages to make a distinction that helps to hold the play together.

Otherwise, *The Country Wife* remains largely a sexual romp between unfaithful women and mainly stupid men.

The country wife herself, played by Kerry Higgins, takes to London ways within 24 hours of arriving in the capital.

As such it is tolerably good fun, though it could be cut. I see no point in retaining passages of restoration satire which are plainly lost on a modern audience, and possibly on the cast as well.

The production includes Fenella Fielding as Lady Fidget. She is very good, as one would expect. However, it is a small part and one cannot help thinking that it might have been more adventurous to try her out as the country wife.

Ms Fielding is in danger of always playing Ms Fielding. Besides, there is no reason why the wife should be quite so country-bumpkinish. It would add new life to the play to give her a touch of style.

The performance on Thursday was stricken by the seasonal 'flu. John Moulder Brown as Horner had suffered during rehearsals and Keith Bridgwater had to step in at the last minute to play, rather well, the part of Pinchwife.

Possibly that explains the initial slowness. Whether it excuses the slight tattiness of the wigs and drossness of the sets is another question. Also, the Mermaid was not much more than half full. Restoration comedy deserves better.

Malcolm Rutherford

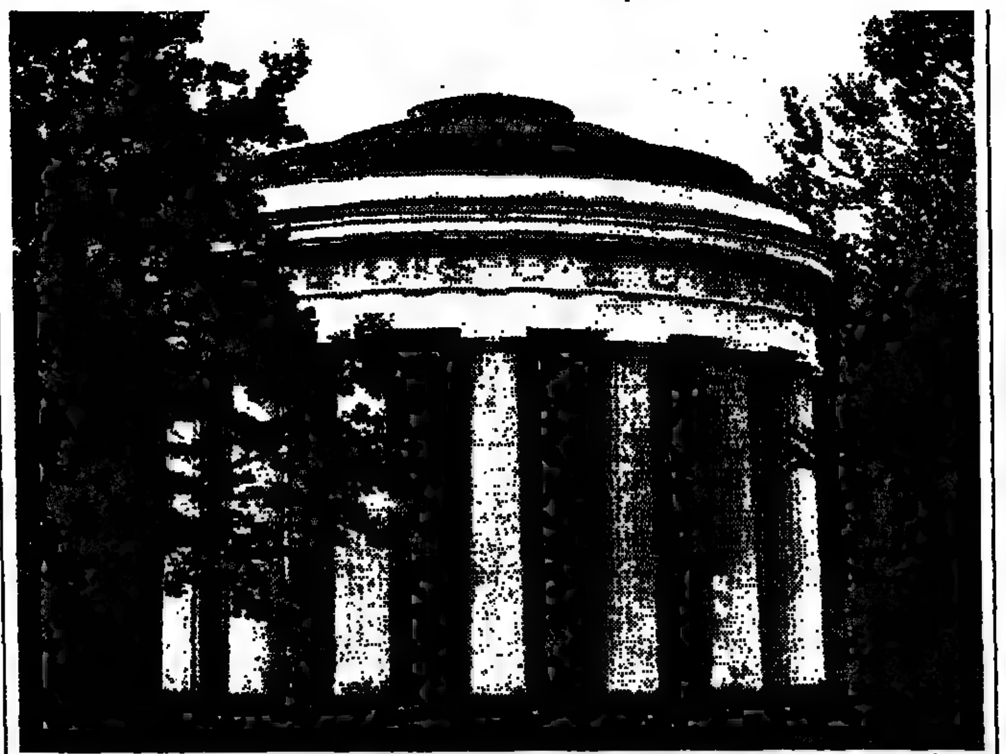
Fenella Fielding

Young Vic new season

Following the successful Save the Young Vic Campaign, David Thacker has been given a five-year contract as Director of the theatre.

The Young Vic's new spring/summer season includes Trevor Nunn's first production for the company, *Timon of Athens* with David Suchet and Sean O'Casey's *The Plough and The Stars* directed by Sam Mendes and starring Judi Dench.

The season will also include Tom Kempinski's *Sex Please, We're Italian!* with Helen Mirren, directed by David Thacker.



The Temple of Friendship at the rescued Russian palace of Pavlovsk

ARCHITECTURE

Books with style

Style is a difficult thing to pin down. It is of course related to fashion, but when it comes to architecture it is something which develops slowly. There were hints of the Gothic revival long before it took off in the 19th century. In England, a glance across the Channel showed us that the Bauhaus-driven Modern Movement was on its way – it just wasn't welcomed until late in the day.

It is the written word and the photographic image that spreads the message of style, and this season's crop of architecture books gives many clues about stylistic preoccupations and their future. It is a brave publisher who promotes a completely new idea – and much architectural publishing inevitably follows trends rather than creates them.

Near my home in London a giant new bookshop has just opened which has an enormous section devoted to architecture, art and design. It is almost as large as that devoted to cooking and gardening. This, I thought, was extremely encouraging, but so many of the books reflect fashion and ideas that are currently marketable rather than staple classics or provocative new ideas.

It might be helpful just to see what *is* the architectural equivalent of Monet or Impressionism in the book stores.

There are two main strands. One is the continuing interest in things classical and neo-classical, although I suspect that may be a cooling trend. The other is an attempt to market a new style which is something to do with "new modernism" or "neo-modernism" – anything so long as it is not post-modernism, which is seen in short sighted media terms as being old hat and disappointing.

However, this year there has been a third thread and that is poor old Charles Rennie Mackintosh. I used to be interested in the old Scot but, poor man, he has been so over exposed, copied and published – especially during Glasgow's spell as Europe's cultural capital, that I, for one, would like a break from his anxious, angular style.

The best book of the year for me was a book by the master of architectural writing Sir John Summerson, *The Unromantic Castle and Other Essays*, (Thames and Hudson £24). Any new book by him is an event but this is in fact a series of earlier writings collected together in one volume which gives a perspective to many of his later and more significant books.

It has a lucidity and pleasure in language which seems almost to be forbidden by architectural publishers today. One reading of Summerson's essay on Sir Edwin Lutyens's Liverpool Cathedral design is as valuable as ten new books on classicism. Few books really enlighten as this one does.

The English Town by Mark Girouard (Yale £19.95) does the other thing that good architectural should do: it makes you look at what is around you in a new way. His tour of England should be compulsory reading in schools as well as put in lots of Christmas stockings. His clear way of writing history makes a complex subject accessible and the illustrations add information and entertainment.

I love reading about one building in detail and I was especially stirred by the tale of the rescue of Pavlovsk, the Russian palace to the south of St. Petersberg, *Pavlovsk* by Suzanne Massie, Hodder and Stoughton £20. How long before the city readopts its old name? I predict it will change it on the occasion of the Pope's visit to Russia. This incredible example of the arts of Russia's golden age was razed to the ground during the siege of Leningrad and then rebuilt by hundreds of volunteers as a monument to the Russian spirit.

Suzanne Massie is a Fellow of the Harvard Russian Research Centre and she also enjoys the unusual distinction of being the first westerner to have bought a flat in Leningrad. It is a moving book. I was touched by the incredible devotion of ordinary Russians to the palace and moved by the great beauty of Maria Feodorovna's creation. I recommend this book for a long fireside read because it is the cheering story of a victory and of popular devotion to culture. It is also a revealing account of the rigorous nature of Russian restoration. I should send copies to those responsible for the poor work at The Queen's House in Greenwich.

Neo-Classical splendours are superbly published and chronicled in a book that genuinely fills a gap in our knowledge. *Neo-Classicism in the North – Swedish Furniture and Interiors 1770-1850* by Hakan Groth (Thames and Hudson £28) is a book I have been waiting for ever since I first visited Sweden and enjoyed the pleasures of a visit to Haga – especially seeing that precursor of modern architecture, the mirror hall in the King's Pavilion.

The real pleasure of this book are the photographs by Fritz von der Schulenberg. I think he is one of the very best architectural photographers in the world and he has an understanding of the subject that makes his work more illuminating than mere records. There are plans and original sketches – those by Desprez are marvellous – and although the text veers towards the chatty, especially about the Swedish royal family, the book deals well with a neglected subject.

Jonathan Glancey is an advocate of the new and his book, *The New Moderns* (Mitchell Beazley £25) actually talks about "nostalgia free" interiors. It is a modest book at a high price but it is particularly to be recommended for the quality of Richard Bryant's photographs and a special sort of insight into emptiness.

For travellers by far the best architectural book this year is *The History of Architecture in India* by Christopher Tadgell (Architecture Design and Technology Press, £65). Although large and difficult for the rucksack it is essential to read it before going on the trail. In fact it is perfect for the armchair traveller too.

I will probably get into trouble for not giving more space to one more book but *Women in Architecture*, a contemporary perspective by Clare Lorenz (Trefoil, £22), is a challenge to all mere males. I enjoyed the individual essays on each practising woman architect, although I could not see significant differences between what women design and what men design, which was a disappointment.

It is clear there should be more women in every profession, including the cabinet and the church. Only then will we stop emphasising our differences. This book is an ideal present – for a man.

Colin Amery

Die Fledermaus

COVENT GARDEN

This Johann Strauss *fils* revival, sponsored by Midland Bank, is good holiday fun. It offers a lot of excellent singing, and the action – in John Cox's "new" 1989 production with the old, still handsome Julia Trevelyan Oman sets – is swifter and tidier than the 1977 original ever was. That was committed to multilingual jokiness, and sacrificed all the farcical tension.

Furthermore, it improves as it proceeds, and probably as the run itself proceeds the whole operetta will pick up extra conviction. Readers who have tickets already should stop reading *now*: finicky, querulous comments are on the way, more welcome to those who failed to book in time.

Getting John Mortimer to do an English text was an inspired idea, but in practice it has two drawbacks. One is that his urbane ironies need expert high-comedy actors to deliver them; few of the singer-speakers here would get through a "straight theatre" audition, and the spoken parts of Act 1 suggest amateur-night. The other is that it is full of up-to-date knowingness: that undermines the springs of the farce, which is built upon 19th-century threats of grave social and marital embarrassment, as in Feydeau or Labiche. If everybody is too sophisticated to be at that kind of risk, the comic anxiety is reduced to a mild charade.

The revival boasts two particular ornaments. Bonaventura Bottone's Italian-tenor swain is an unqualified delight, throwing off all his pop-snatches of opera with ringing conviction, including a fine Pavarotti cartoon, and brandishing a rich ice-cream-man accent - he is British-born of Italian origins - but with all that irrepressible verve he never scene-steals. His partners must love him.

John Sessions and Judith Howard

The other great success is Judith Howarth's parlourmaid, Adele. Though her prissy-Miss elocution was a nuisance – Adele isn't a Roedean *au pair* – the "Laughing Song" was most elegantly turned, and she brought her Act 3 "See how versatile I am!" showpiece – a dated, usually blench-making routine – to brilliantly confident life.

As Eisenstein, the dodgy central chap, the baritone Louis Otey developed better and better along Leonard Rossiter lines; and if Nancy Gustafson's Rosalinde was a touch brittle and charmless in Act 1, she rose to a fine, mettlesome Act 2 *Csárdas*. Though young Anthony Michaels-Moore was mostly a bland, one-note Dr Falke, he justified himself entirely when he led the "Brüderlein" waltz. John Dobson is a seasoned lawyer Blind, like Glenys Groves' tough sister Ida. This time Prince Orlofsky is a counter-tenor, or as Jochen Kowalski sings him - with shoulder-heaving emphases - a forceful, incisive soprano: eldritch, but theatrically right on.

Hyper-charged John Sessions is the comical gaoler Frosch – as in all British productions, a cousin of the Porter in *Macbeth*. His superior, Eric Garrett's ripe Colonel Frank, enjoys fewer good lines. Richard Bonynge conducts, presumably because his wife Joan Sutherland was originally to have sung Rosalinde. Though we know that Bonynge has his unimpeachable moments, flexibly alert rhythms – on which *Die Fledermaus* depends for its musical wit – have never been his *forte*. Here the canonical teasings-and-hesitations are stiffly rendered, as if by numbers; the best tunes are well set off, and yet the essential waltz-spring - hasty second beat and,or, delayed third beat - is nowhere felt. Maybe that will come.

David Murray

Martin centenary

KONZERTHAUS, VIENNA

The centenary of the Swiss composer Frank Martin (1890-1974) has passed almost unnoticed in Britain. While a large proportion of his life's work still awaits evaluation in this country, there is every reason for anybody interested in his music to feel aggrieved – especially when one looks at the exhaustive coverage given during the course of the year to his exact contemporary, Martinu.

To catch a major and rarely-heard work by Martin, the place to go was Vienna. No surfeit of *Messiahs* here. The Konzerthaus, the city's "other" concert-hall just across the road from the world-famous Musikverein, chose as one of its seasonal attractions a concert performance of Martin's *Le Mystère de la Nativité*, an oratorio rather than an opera, even though it was staged at Salzburg in 1960, a year after its première.

The concert was to have been conducted by Paul Sacher, now in his mid-80s but still active. Sacher has done more for Martin's music than any other surviving individual, commissioning work and conducting many of the first performances, a long-standing champion of the kind Martin needs. So it was unfortunate when illness forced him to withdraw, leaving the concert in the otherwise very capable hands of Manfred Honeck.

The good news was that the last-minute substitution seemed to have no adverse effect on the standard of the performance. *Le Mystère de la Nativité* is not technically a difficult work for its performers to handle, but it does require a sense of elevated rapture and concentration that is not easy to sustain over a period of two hours or more. The theoretical ground-plan of the piece is divided on to three levels. At the bottom is Hell – xylophone, drums, and some spoken text. In the middle are the scenes on earth for orchestra and soloists; at the top the heavenly scenes, with choirs and harps, mystic, expansive and simple. In practice, though, the contrasts make far less effect than they might.

The overwhelming impression is of a single tableau, often static, at best slow-moving. The musical style is stripped of all inessentials and aspires to a feeling of rarified grace similar to that which permeates the late works of Fauré. What one misses is the French master's ability to create a long-term feeling of underlying harmonic power, like a magnet that draws the ear on, no matter how still the music may seem on the surface.

As one might expect, the vocal parts are restrained and contemplative, modal rather than tuneful. It falls to the soprano, who doubles the roles of Eve and Nôtre Dame, to embody the work's highest aspirations and there the evening was blessed with a near ideal singer in Françoise Pollet, luminous in tone, calm, poised. The beauty of her singing easily justified the fast-rising reputation of this promising French lyric soprano.

Altogether the nine soloists required were of a notably high standard.

Jean-Luc Chaignaud, as Adam and Joseph, provided a sure partner to his soprano and Penelope Walker made the pulse of the music beat more ardently at the end of the first and third parts, where Martin builds to finales of exultation and jubilation respectively. Under Honeck's direction the Hungarian Radio Chorus of Budapest and the Vienna Symphony Orchestra responded with confident, sensitive music-making. In all, a highly commendable centenary tribute.

Richard Fairman

Gary Glitter

Wembley Arena

There was this mass rally in the Arena on Friday night. Thousands of young men with staring eyes, crazed with powerful emotions, raised their arms in adulation as they shouted "The Leader, The Leader" at the small distant figure, who gave them words of comfort – that they were beautiful, that he was here to stay.

No need to worry. It was just the Bacofoil Kid making his nineteenth come back. Gary Glitter has joined the Queen Mother, Frankie Howerd and Red Rum as part of the national heritage mainly because he shares their powers of survival. Heaths may come and Thatchers may go but he still stomps around the stage, looking like Liberace hamming it up as Mussolini, singing the praises of the great god Rock and Roll.

Judging by their youth his audience are sons and daughters of Gary, no doubt hooked because his songs are the baby talk of pop, so simple, lyrically and musically, that they picked them up in their prams way back in '72 and have never been able to dislodge them. The appeal is dangerously infectious, like the hokey cokey. The urge to join in the unchanging chant is irresistible.

In fact a Gary Glitter concert is not much fun unless you obey his instructions and sing to yourself, clap yourself and tell yourself that you are beautiful. The Leader does very little but wear lots of silly costumes and press the right buttons. We get a run down on recent Glitter happenings: the good news, "I've been without a record contract for six years". And the bad, "I've just signed a deal with Virgin". (I may have got this round the wrong way). However, if any new songs were included in the show they were incorporated into the ouevre as seamlessly as a rubber boot into quicksand.

Perhaps we can't expect Gary, at his age, to do it like Madonna but I could have done with fewer chases around the stage, followed by his nimble band; with less rolling around on the floor like a petulant baby, and body beautiful poses at the top of the central staircase; and with none at all of the pelvic twitching.

In the time saved we could have had some music. Seldom can a near three hour show have yielded fewer songs; never can an audience have been revved up with such incessant commands to get ready, to applaud, to enjoy, to love itself.

The foreplay was so stretched out that there was bound to be an anti-climax.

However, we did get costumes that Danny La Rue would break a nail for – black leather; red Santa: white fur - plus all the trimmings, an impresssive band with two drummers that could have powered a space probe, and a good natured audience of Gliterati.

For all its banality, and superficial bombast, Gary Glitter's Christmas Show was more fun than the average office party, which, in the way predictability flattened anticipation, it much ressembled.

Antony Thorncroft

Constable exhibition

The Tate will hold a Constable exhibition, focussing exclusively on his landscapes, and sponsored by Barclays Bank, from June 13 to September 15.

December 14-20

MUSIC

London

City of London Sinfonia conducted by Richard Hickox, with soloists and chorus. Handel's Messiah. Barbican Hall (Mon) (071-638 8891).
Orchestre de Paris conducted by Semyon Bychkov, with Jean-Philippe Collard (piano). Berlioz, Saint-Saens, Mahler. Barbican Hall (Tues) (071-638 8891).
English Baroque Soloists conducted by John Eliot Gardiner, with Malcolm Bilson. Schumann's piano concerto, Manfred overture and first symphony. Queen Elizabeth Hall (Tues) (071-928 8800).
English Chamber Orchestra conducted by Martin Neary, with soloists and the Westminster Abbey Choir. Christmas music. Barbican Hall (Wed) (071-638 8891).
London Sinfonietta conducted by David Atherton, with Michael Collins (clarinet). Copland. Royal Festival Hall (Wed) (071-928 8800)
Academy of St Martin in the Fields directed by Iona Brown, with Barry Tuckwell (horn). Mozart. Royal Festival Hall (Thur) (071-928 8800).

Paris

Paul Kuentz Orchestra and Choir conducted by Paul Kuentz. Handel's *Messiah* (Mon). Salle Pleyel (45638873).
Jean-Yves Thibaudet, piano recital (Tues). Salle Gaveau (49530507).
Maria Joao Pires, piano. Mozart, Debussy, Schubert (Tues) Théâtre des Champs Elysées (47203637).
Budapest Symphony Strauss Orchestra conducted by Istvan Bogarwith Sopianae Ballet in Viennese music, dances and waltzes (Wed, Thur). Salle Pleyel (45638873).
Ensemble Orchestral de Paris conducted by Armin Jordan with the ocal Ensemble Michel Piquemal. Florentz, Haydn (Thur). Saint Nicolas des Champs (42771883).
Orchestre National de France conducted by David Zinman. Elgar, Ives, Sibelius (Thur). Théâtre des Champs Elysées (47203637).

Brussels

Belgian National Orchestra conducted by Brian Prestman with Peter Zazofsky (violin), Atar Arad (viola). Salieri, Mozart, Bach (Tues). Palais des Beaux-Arts (507 82 00).

Frankfurt

West Side Story, with the entire original production directed and choreographed by Jerome Robbins (Wed, Thur). Alte Oper.

Rome

John Nelson conducting Berlioz' *L'enfance du Christ* (Mon, Tues). Auditorium in Via Della Conciliazione (6541044).

Milan

I Solisti Veneti conducted by Claudio Scimone playing Vivaldi, Bach (Mon). Teatro Alla Scala (72.003.744).

Madrid

Madrid Symphony Orchestra and Principe de Asturias Foundation hoir, conducted by Gaetano Delogu, with Thea van der Putten (soprano), Rachel Ann Morgan (contralto), Manuel Cid (tenor), Wout Oosterkamp (bass). Handel programme (Mon). Auditorio Nacional de Musica (337 01 00).
Spanish Chamber Orchestra conducted by Victor Martin. Bach programme (Tues). Auditorio Nacional de Musica (337 01 00).
Montserrat Caballe (soprano), accompanied by Miguel Zanetti (piano). Stradella, Gasparini, Giordani, Galuppi, Puccita, Rossini, Pacini, Debussy, Montsalvatge, Serrano, Chapi (Thur). Auditorio Nacional de Musica (337 01 00).

New York

Oratorio Society of New York. Handel (Mon). Carnegie Hall (247 7400).
New York City Gay Men's Chorus conducted by Gary Miller. Balcom (world premiere), Susa, Nelson (Tue, Wed). Carnegie Hall (247 7400).
New York Philharmonic conducted by Samuel Wong with Westminster Symphonic Choir. Mendelssohn (Tue, Thur). Avery Fisher Hall, Lincoln Center (874 6770).
Musica Sacra conducted by Richard Westenburg. Handel (Thur).

Washington

National Symphony holiday pops concert (Wed, Thur). Concert Hall, Kennedy Center (467 4600).

Chicago

Chicago Symphony Orchestra conducted by Erich Leinsdorf. Stravinsky, Prokofiev (Tues); Klaus Tennstedt conducting, Mahler (Thur). Orchestra Hall (435 8122).

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Europe's new defence role

The need for "a European defence identity", the subject of one of the European Community's intergovernmental conferences, has not always been obvious. For most of the post-war era, western Europe, threatened by Soviet military power, considered its defence links with the US to be much more important.

Indeed, Nato's unity, coupled with its imaginative policy of pursuing political détente and disarmament in tandem with maintaining military strength, has given Europe an unprecedented 45-year period of peace. That is not something which should be given up lightly.

Yet it is clearly not possible, either, to soldier on exactly as before. The new interest in a European defence identity is not just a product of Euro-idealism. It is the result of a hard-headed analysis of the situation following the collapse of the Soviet and eastern European communist systems and last month's conventional forces reduction agreement.

The disappearance, for the moment at least, of the Soviet military menace in Europe and the creation of a 34-nation pan-European forum to deal with threats to security, the CSCE, render the task of a purely western defence organisation such as Nato less obvious.

It would be extremely unwise at a time when the Soviet Union and some eastern European countries are threatened by political unrest and economic chaos, to envisage dissolving Nato, as has been suggested in some quarters. At the same time, the practical consequences of east-west détente in Europe and the much-improved relationship between the US and the Soviet Union, have to be squarely faced.

Joint burden

In future, it is clear, the US military presence in Europe will be much smaller than it has been. The European members of Nato will necessarily have to assume a much greater share of the joint defence burden.

The corollary is that they will also expect to play a bigger role in the running of the alliance, and that presupposes a much more cohesive organisation of their own than exists at present. For the moment, the EC does not provide a suitable framework for defence policy co-ordination, though its political consultation mechanism already deals with the wider political aspects of security policy.

Sensitive issue

More even than a monetary union, a common defence policy raises the sensitive issue of national sovereignty. Many member states, particularly France and Britain, would never accept majority voting on defence issues. Other obstacles are that the EC already includes one neutral state, Ireland, and is in due course likely to allow in others, such as Austria and Sweden. That, and the fact that France is not a member of Nato's integrated military structure, rules out the Community as the "European pillar" of the alliance.

There appears to be a wide consensus that such a role should be played by the nine-nation Western European Union which, after lying virtually dormant since 1954, has finally come into its own by acting as the co-ordinating body for Europe's naval contributions to the anti-Iraq coalition in the Gulf. With some variations, Italy, France, Germany and Britain have all opted for it as the best bridge-building organisation between Nato and the EC.

That, of course, raises the question whether the WEU will be essentially the European pillar of the Atlantic alliance, as Mr Douglas Hurd, the Foreign Secretary, sees it, or mainly the new security and defence arm of the European Community, as French President François Mitterrand has in mind. For the WEU truly to become the defence arm of the European Community, institutional links would eventually have to be established between the two organisations.

The first priority, however, is that at least a decision in principle on WEU's new role should be taken. Nato, which is currently conducting a fundamental review of its future strategic role, can hardly be expected to produce anything meaningful as long as the nature of its European pillar remains in doubt.

Clearer rules for telecoms

WHATEVER detailed policies emerge from the British government's review of the telecommunications industry, which should be completed in the new year, three issues are clear. It will promote more competition. There will be continuing need for tough regulation. But as a more competitive market develops, so the role of Oftel, the industry regulator, will have to change.

Professor Bryan Carsberg, Oftel's director-general, has done an outstanding job in prising open the telecommunications market and in encouraging the growth of mobile telephone services. Professor Carsberg's determination has set a model for the other regulators in the gas, water and electricity industries.

There can be no lessening of Oftel's vigilance. The experience of the US, which is further down the road in liberalising telecommunications services, shows that forceful regulation is required for many years after the introduction of competition.

Oftel will need to be on guard to make sure BT does not smother new entrants. Yet it is unrealistic to suppose that regulatory policies will be unaffected by the growth of competition. In the past six years much has depended on the quality of Professor Carsberg's judgments in particular cases. In the future, while the regulator will still need some room for manoeuvre, competition needs to be based on clear and open rules rather than private, case by case determinations.

Closed doors

The government is predisposed to grant additional licences to operators to run telecommunications services and will assess applicants "on their merits", according to the recently issued consultative paper. This is too vague. Anyone should be able to run a telecommunications service unless there are overwhelming reasons why their entry into the market should be prevented. The criteria for blocking new entrants should be spelt out so that potential competitors know what obstacles they have to overcome. Entry should not depend on negotiations behind closed doors with Oftel and the Department of Trade and Industry.

The duopoly has been difficult enough to regulate even though there are only two competitors. Once there are many more competitors, the task of the regulator will become much more complex. The solution will be to regulate the market through clear rules within which all competitors can work.

Explore options

The terms under which competitors will gain access to BT's infrastructure will be especially important. Entrants will want to compete with BT only in selected services. For example, a new long-distance operator will lay down its own trunk network to compete with BT. To offer customers a complete service it needs to link its trunk network with local networks. At the moment the only local network available belongs to BT. The price BT charges for access to the local network will have a significant impact on the finances of its fledgeling long-distance competitor. Rather than leave this issue to the discretion of Oftel other options should be explored, such as a requirement BT to published wholesale prices for its services.

To make such a system work BT will have to disaggregate and disclose the costs of running different services, to prevent it abusing its power by setting unjustifiably high prices. To encourage competition there will have to be much greater transparency in the financial information BT provides about the costs of its local, long-distance and international services. An alternative would be to examine whether BT should be forced to demerge its highly profitable international services division. The separate accounts for its UK operations should clarify the extent of cross subsidy from international to domestic calls, as well as the relationship between domestic and business services. Only this transparency of costs and prices will allow consumers and competitors to monitor whether they are being overcharged.

The British telephone consumer has waited too long for real competition in services. Transparency in BT's costs and pricing is essential if that competition is to arrive sooner rather than later.

Norma Cohen on the Tories' bid to capture the initiative in education

Back at the top of the agenda

Since Mr John Major became prime minister just over three weeks ago, the British government's rhetoric on education has undergone a radical change as the issue has again leapt to the top of the political agenda.

While Mrs Thatcher held office the Conservatives proclaimed the supremacy of market forces as a means of reforming an unresponsive education system. Parental choice became the buzz phrase for Tory policy, culminating in the Education Reform Act of 1988. Under the then education secretary Mr Kenneth Baker the Tories carried out the most complete overhaul of education policies since the war.

The act aimed to raise academic standards through the National Curriculum, which stipulated the basic subjects to be taught and tested in schools. It also tipped the balance of power towards consumers by financially rewarding those schools which could attract the most pupils and by removing decision-making from local authorities and placing it with boards of governors.

This last has proved the most controversial element, along with the setting up of a minimum of 20 City Technology Colleges in inner-city areas. The Labour party has vowed to reverse the opting-out policy and abolish CTCs.

The immediate effect of the act was to put the Labour party on the defensive as opinion polls indicated that many parents were reassured by its message. However, certain aspects of the act, such as open enrolment – which allows parents to send children to the school of their choice rather than the closest one – had the effect of creating local inequalities. The most popular schools filled up quickly, leaving most parents without a choice.

The perception began to grow that the reforms delivered less than they promised. And over the past two years the Labour party has capitalised on discontent among parents who believe that the scale of the reforms has not been matched by an equivalent commitment of funds.

The Conservatives are now lagging badly behind Labour on the education issue. An opinion poll taken in the last few days of Mrs Thatcher's tenure as prime minister showed them trailing 29 percentage points behind the opposition. Even loyal Tory voters had grown disillusioned, the poll showed, particularly those who had deserted the Labour party in the early 1980s for Mrs Thatcher's vision of a socially-mobile society.

Mr Jack Straw, shadow education minister, says disillusion stemmed from the fact that expectations outran government's ability to deliver reform quickly. "They heard the sizzling but they couldn't see the steak," he says.

With a new prime minister in Downing Street, the Tories have returned to the offensive in an effort to recover ground on what could be the single most important issue to voters (apart from the economy) in the next general election. In the process, there has been a marked shift of emphasis, as the words "market forces" have been dropped from Tory education vocabulary and Mr Kenneth Clarke, the education secretary, has moved to regain the high ground on standards.

But the question remains: can Mr Major deliver an improved service before the next election without straining the public purse, or are the changes mostly cosmetic?

As the government seeks to recapture the initiative, the distinctions between the two main political parties are becomingly increasingly blurred. Both parties, for instance, support a National Curriculum, local management of schools by boards of governors and open enrolment. Both say they are determined to raise standards, improve access to higher education and broaden training opportunities for school leavers.

Paradoxically, Labour had seized on the Tories' reluctance to impose mandatory nationwide teacher appraisal and itself endorsed the concept. This created the unusual spectre of a Labour party employing a "get tough" policy with teachers while the Tories demurred. Mr Clarke has moved swiftly to reverse the Tories' position and last week ordered mandatory appraisal. His decision held the Tories up to the charge of underfunding the system, as the £10m a year allocated for the appraisals is roughly a quarter of the figure recommended by an independent body.

It is in the issue of funding that the Tories are at their most vulnerable. Central government spending on schools – nursery, primary and secondary – has risen from £9.5bn in 1978-79 to £24.9bn in 1989-90, a real increase of 10 per cent. Meanwhile, enrolments in primary and secondary schools have fallen to 9.27m in 1987-88 from 10.63m in 1980-81.

For some people in the service, that increase has not been enough. Mr David Jewell, chairman of the Headmasters Conference of independent schools, described the Tories' funding of education – particularly teachers' salaries – as "a national scandal". Investment in plant and equipment at maintained schools falls far short of what is needed, Mr Jewell said. He cites statistics compiled by Her Majesty's Inspectorate of Schools, the government's schools watchdog, showing that on average state schools spend only £11 per pupil on science, while the private sector spends £39.

How much the Tories would have to spend to overcome their skinflint image is unclear. Labour will only say vaguely that it intends to spend more than the present government. For his part, Mr Clarke maintains that the Tories have been spending generously. "We have increased spending and intend to keep increasing spending," he said. But he admits: "There is no instant thing that either party can do to improve standards."

Mr Clarke, known for his pugnacious stance in dealing with health-care unions while health secretary and for simultaneously supporting public services, has toned down the language of choice and reaffirmed government obligations to state education. He wants it to be made so good, he says, that no parent will choose to send a child to private schools.

One way of making state education better is to attract and keep the most able teachers. But this is one area where room for manoeuvre is limited. Local authorities have been allocated £17.5bn for their education budgets next year, a sum which the authorities estimate will cover a teachers' pay rise of no more than 8.7 per cent. Currently the top base salary for a teacher with five years of service in a secondary school is about £16,000.

Unless Mr Clarke is able to persuade the Treasury to release more funds for teachers' pay, his attempts to raise the profile of the profession will be difficult. Even if he does manage to extract more funds, they will not be allocated to teachers across the board. Mr Clarke stresses that any extra money will be awarded for longevity and merit, and to those who teach subjects – such as physics – where skill shortages exist.

Mr Clarke is also reported to back the creation of a Royal College of Teaching, similar to those for medicine and arts. This body would have no pay negotiation rights, but would set entry-level standards for the profession and determine training criteria. Such an institution sounds remarkably similar to the General Teaching Council proposed by the trade unions and not wholly unlike the Education Standards Council proposed by Labour. The latter would act as a nationwide schools inspectorate, reporting to local education authorities on schools which failed to meet minimum academic standards and retain pupils beyond the compulsory leaving age of 16.

However, Mr Clarke shows little sign of departing from the Education Reform Act. He says he is committed to some of its most contentious policies, including CTCs and the opting out of schools from local authority control.

So while he has signalled a significant philosophical departure on his own and Mr Major's part, emphasising standards over market forces, so far he has adhered to the priorities of the Thatcher years. The indications are that any immediate changes in education will be more of style than of substance. That voters associate Tory policy principally with market forces "is an impression I will have to correct," Mr Clarke says. With good reason. While the rhetoric of the marketplace may win ideological plaudits, it rings alarm bells among many parents.

Gulf signals confused, but the resolve is intact

Peter Riddell argues that America's willingness to go to war should not be discounted

Serious misunderstandings have emerged in the past two weeks over the US's Gulf policy – and President George Bush is in part himself to blame.

The impression has arisen in Europe and the Middle East that the US is now looking for a way out, for some form of compromise short of the United Nations resolutions that would enable it to avoid war at all costs. At the crudest level, some London papers have portrayed the US as no longer having "the stomach for a fight" and of "waving the white flag". Most fancifully, there have been suggestions that the departure of Mrs Thatcher has removed the backbone from Mr Bush.

Much of this seems strange to anyone in Washington; it absurdly overrates the influence which Mrs Thatcher had on Mr Bush. To US eyes, he is still taking a tough line, dismissing talk of negotiations and holding firm over the timing of any talks to prevent Iraqi stalling. Indeed, the Bush administration has said the release of foreign hostages makes no difference to the minimum condition of full Iraqi withdrawal from Kuwait.

The US has made a deal more difficult by its opposition to a UN resolution endorsing a Middle East peace conference (except on condition that it is "properly structured and [comes] at the appropriate time"). This is to avoid any appearance of linkage with the Arab/Israeli dispute.

The misunderstandings originate from November 30 when, just after the UN passed a resolution authorising the use of force, Mr Bush suddenly reversed his policy and proposed high-level direct contacts with Baghdad. This was immediately seen overseas as the start of negotiations, especially with Secretary of State James Baker, a famed deal-maker, as the emissary.

The proposed meetings were largely a reaction to domestic unease and were intended to show that Mr Bush had gone "the extra mile for peace".

Unfortunately, Mr Bush had not consulted with his allies beforehand, though he rapidly did afterwards. He made clear that the purpose was to convey a direct message to President Saddam Hussein that either Iraq withdrew by January 15 or it would face war. The only inducement was that this would mean no US attack and the prospect of bilateral talks afterwards with Kuwait over disputed territories.

Mr Bush somewhat naively failed to anticipate the overseas reaction. This is partly because he only consults with a small group of advisers: Mr Baker, Defence Secretary Dick Cheney and National Security Adviser Brent Scowcroft. State Department officials with knowledge of the Middle East are on the outer circle. Moreover, Mr Bush's concern for secrecy – and his delight in announcing surprises – prevents a wider debate which might show the pitfalls of a particular option or prepare public opinion for difficult decisions. Mr Bush informs rather than involves Congress.

The danger is that he does not take sufficient account of outside views, and the realities of Middle East politics. Mr Bush sees the crisis in stark terms, frequently drawing parallels with the appeasement of the 1930s and comparing Saddam Hussein to Hitler. Mr Baker talks of a "defining moment" in the post-cold-war era.

Another misunderstanding arose because of the nationally-televised hearings of congressional committees when most witnesses, notably two former chairmen of the joint chiefs of staff and ex-defence secretaries, as well as leading Democrats such as Senator Sam Nunn, expressed concern about an apparent rush towards war. Instead, they urged patience and perseverance with economic sanctions.

These hearings were seen overseas as showing that the US was as divided as it was during the Vietnam war and therefore Mr Bush could not order military action. But such open debates are the American way and have preceded every previous US involvement in war. Americans are traditionally reluctant to become entangled overseas.

While there is a gap between international and domestic backing for a tough line, that does not mean that Mr Bush has decided against military action, or cannot go to war. The US public, though divided, generally backs his firm policy and there is very little disagreement within Congress about the goal of using force to secure Iraqi withdrawal, only about the timing. The odds must still be that Congress would, albeit reluctantly, back military action if the proposed Baker mission to Baghdad (if it ever happens after the current squabbling over dates) is seen to have failed to achieve a breakthrough and Iraq has not begun to withdraw from Kuwait by January 15.

Mr Bush would undoubtedly still prefer a peaceful solution. But the US is not preparing to back down, and, if the current exercise in brinkmanship fails to produce a change in Iraqi policy in the next month, military action remains likely. Recent misunderstandings have made war more, rather than less, likely because they have undermined the credibility of Mr Bush's warnings.

OBSERVER

Gloria's heritage

■ With the death of Prince Johannes Thurn und Taxis, Germany has lost one of its rare flamboyant plutocrats. Although the country is well stocked with the super-rich, they tend to be reclusive. Exceptionally, the prince and his young wife Gloria have been ceaselessly in the limelight.

Ten years ago, as a denizen of high-life parties and Germany's most eligible bachelor, the then 55-year-old prince married Gloria, an impoverished countess. She was 20 at the time, and had a penchant for punk hairdoes and Harley Davidson motorbikes.

While the fairy-tale couple with their baroque castle in Regensburg were keeping the social gossip humming, trouble was overtaking the Thurn und Taxis fortune estimated between £600m and £1.7bn.

The prince owned land covering some six times the area of Liechtenstein, and other jewels such as the exclusive Thurn und Taxis bank at the centre of a raft of financial-service enterprises. The entire fortune passes to the male heir Albert, since last Friday one of the world's richest 7-year-olds.

But parts of the business empire, including brewing interests, had apparently become less than profitable. Plagued by failing health, the prince was increasingly worried about who would take over control.

Becoming suspicious that his top managers (engaged for the past three years in restructuring the empire partly for fiscal reasons) were creating a foundation intended to marginalise the family's influence while Albert grew up, Thurn und Taxis fired four of his most senior advisers over the summer.

Enter Gloria, with hair tamed and evidently studying accounting. Having given herself a year to learn the ropes, she has been a familiar figure at board meetings for some months.

Now, however, events have outstripped her preparation, and her husband's ambition of leaving a simplified structure to control has been frustrated. As a result, her fate and that of the family wealth will doubtless keep the business as well as the social grapevine thriving for long to come.

Missing Claus

■ Britain's perennial skills shortages are being felt in a new area at the moment. Good quality Santa Clauses are in such scarce supply that department stores are poaching them out of each other's Christmas grottoes, says a survey by Industrial Relations Services.

The independent research organisation says numerous stores are hard-pressed to find "the right sort of person" to embody seasonal goodwill. Typically, it seems, that person must be white, male and of pensionable age.

Not that the job is a doddle. The hours are testing, and the pay is hardly enough to offer victims of City redundancies an enticing second career.

The best paid example found by the survey was in London, at the Broadway Centre in Ealing, with £6 an hour for a 42-hour week with three daily breaks and free costume. But the hourly norm for Santas is only about £4.

Green dream

■ When visitors to Yokohama are handed the cards of certain of the city's officials nowadays, they promptly put the cards to their nose.

The action does not mark the emergence of some new Japanese custom. Nor have Yokohama's bureaucrats taken to printing their names and job-titles in scented inks. The reason is that the visitors have just been told the cards are made of recycled sewage.

"As far as I know, we are the first to make paper this way," says Senji Kaneko, head of the Yokohama sewage bureau's technology development division. "Only the Japanese would think of this."

Since the cards are odourless, "nobody notices until I tell them. Then the first thing most do is to sniff the card."

Lest the green parties should expect too much of a new environment-friendly method of making paper – one particularly suited to newsprint-production, cynics might say – the bureau chief stresses that the process is as yet far from usable on an extensive scale. For one thing, production costs are five times those of established processes.

Yokohama nevertheless has a good reason for funding further development. The city's 3m-plus population produces 450m tons of sewage a year. "When you dehydrate that you've got 170,000 tons, and when that is burned you still have 15,000 tons of ashes," Kaneko explains.

As his bureau is running out of places to bury the ashes, "it's a technology with a dream."

Noises off

■ Meanwhile British researchers at Rank Xerox in Cambridge have apparently discovered that the increasing number of people who work from home often find it hard to apply themselves because home is too strongly associated with relaxation. The remedy, say the egg-heads, is to import an office atmosphere by playing tapes of telephone cheeps, air-conditioning noises and suchlike.

At the same time, the neighbouring company Noise Cancellation Technology is developing a special chair for office workers unable to concentrate because of distractions. The chair identifies the sound waves of telephones, air-conditioning and so on, then emits a counter-signal with the net result of silence.

But hang on a mo.... Couldn't both problems be solved more cheaply by sending the noise-phobics to operate from home, and having the quietness-phobics work in offices?

Record chance

■ John Major still has a chance to improve on his achievement of one of the shortest ever reigns as UK foreign secretary, as well as a brief career as chancellor of the exchequer. If he calls an election – and loses it – before March 28, he will become the shortest-serving prime minister.

In that case, he would have served for fewer days than the previous record-holder, George Canning, who lasted just 120 in 1827. Ironically, Canning was the successor to Lord Liverpool, whose 15-year stint as premier was frequently cited as the target for Mrs Thatcher to beat.

The bad omen for Major is that Lord Liverpool's long rule was followed by a succession of short-lived premierships. Nor are the omens good for Kenneth Baker; the home secretary of that era, William Huskisson, was the first person on record to be killed by a train.

Producer?

■ Film-buff colleague seeks backers for an epic, starring Bob Hoskins in revolving bow tie, entitled Who Shopped Roger Levitt?

A cushion against recession abroad

The effects of unity are providing a measure of optimism for German industry as international demand shrinks. **Andrew Fisher** reports

German managers could be forgiven for being in two minds these days. On the one hand, they are keen to take advantage of the opportunities in the five new eastern states of their country, already a source of surging demand for western goods, German and foreign. On the other hand, they are aware that many of their markets abroad, notably the US, the UK and Scandinavia, are moving into recession and that the Gulf crisis puts a question mark over the world outlook.

Thus, while Germany is by no means immune from the economic problems starting to afflict the rest of the world, its industry is in a position to offset much of the downturn elsewhere by pushing goods into an east Germany where people have long been deprived of attractive, quality products.

German economists call this the "uncoupling effect", a handy term for the impact eastern demand is having on the west German economy at a time when customers abroad are ordering less. The German economy is assuming the locomotive role, especially for western Europe, that the US was so keen to see it take on in the mid-1970s. But this time, the propulsion is coming not from deliberate policy but from the addition of 16m people.

Bringing the economies of the new states up to the levels of the west will, however, cost huge sums. It is fortunate for Chancellor Helmut Kohl that the economic pre-conditions for meeting these costs are so favourable, even though the costs are causing tensions in financial markets and concern in Bonn and abroad. German citizens in the east are helping to finance their own recovery by purchasing western goods.

As a result of this buoyant demand, west Germany's real economic growth is likely to be about 4.5 per cent this year – third-quarter growth was a vigorous 5.5 per cent – after nearly 4 per cent in 1989. Manufacturing output should expand by 5 per cent, twice as fast as the rest of the European Community. The benefits of eastern demand are most powerful for companies – many of them small or medium-sized – in the retail, consumer, and construction sectors, where foreign competition is limited.

It is bigger companies such as Daimler-Benz and Volkswagen which tend to take a more ambivalent view of events. They stand to profit considerably from business in the east, though most of their turnover is outside Germany. The fall in the dollar, reflecting increasing pessimism in the US, dents the overseas profits of these groups. It also represents a blow to the big chemical groups, bringing steep slides in third-quarter profits.

Daimler, which ships DM6bn (£2.1bn) worth of Mercedes-Benz cars to the US each year, is experiencing an earnings squeeze from its sales in North America. Yet it is profiting from the eagerness with which east Germans have been buying second-hand western vehicles and from increased truck sales. Because of the jump in used car prices, many west Germans have bought new models, thus keeping the car upswing going in Germany as it is fading abroad.

"This is a special German boom that we have," says Mr Gerhard Liener, Daimler's finance director. "How long it will last I don't know. But it will continue some time into next year." Once it ends, "I could imagine we will have an upturn in the economy of east Germany to a degree that will give consumers enough purchasing power to appear as customers for new cars."

For that to happen, west German and foreign companies will need to take up the investment challenge in the east. At present, uncertainties over property rights, and environmental clean-up costs are still delaying spending decisions. "The investment wave has not started rolling yet," says Mrs Renate Braun-Reiber, head of research at B Metzler, the Frankfurt private bank.

The latest information on corporate finances suggests that when the tide does turn in east Germany, companies in the west will be in a strong position to move in, even allowing for slacker growth or declines in profits as a result of the strong D-Mark and lower exports. Bundesbank figures show that the pre-tax profits of industrial companies rose by 10 per cent last year.

Thus the central bank reckons capital spending will continue to rise, despite higher energy, wage and interest rate costs. VW plans to invest some DM5bn in east Germany and Daimler DM2bn. Such projects will initially help suppliers in the west. Already, the engineering industry is gaining from internal demand, fuelled by investment in the growing east German market. Machinery makers, often highly-specialised, are working at such high capacity that the tailing off in foreign business – partly as foreign customers turn to suppliers who can deliver more quickly – has come as something of a relief.

German industrial production

% change over previous year	1989	1990	1991
CAPITAL GOODS	6.8	6	3
incl. mechanical engineering	9.3	8	3
vehicles	7.3	3	1
electrical engineering	8.7	6	4
BASIC MATERIALS	2.9	1.5	0
incl. steel	1.4	-7	0
chemicals	2.6	1	0
CONSUMER GOODS	3.8	5	2.5
food, drink, tobacco	2.8	10	4
TOTAL MANUFACTURING	4.9	5	2.5
rest of EC	3.2	2.5	2
East Germany	2.3	-25	-20

East German demand has helped these sectors of west German industry:

- Cars. Production has touched monthly records and new registrations have soared. The negative effect is that the autobahns are heavily congested. "The purchase of a western car takes absolute top priority in east German households," says Mr Bruno Kesseler, head of sector analysis at Westdeutsche Landesbank. This year, he expects up to 800,000 cars to be sold there, about a third of them new.
- Consumer goods. East Germans have been eagerly snapping up cosmetics, clothes, kitchen equipment, toys, televisions, video recorders and a host of other goods of a range and quality previously unknown to them. Those who streamed over the former border to live in west Germany before the D-Mark's introduction in the east have given west German companies a considerable lift. Those who stayed put have also swelled western order books.

The retail trade has seen business jump from the same sources of demand. This year is likely to be a record one for the sector, with a 9 per cent rise in sales (including inflation of about 3 per cent).

- Construction. This perennial sluggard in German industry has received a big boost. The influx of immigrants has boosted demand for housing and stimulated orders for building machinery. This is happening at a time when the need for new homes in west Germany is already increasing because of greater affluence.

"Construction will be a growth industry in the medium-term in a united Germany," says Mrs Lydia Kortenkamp, a WestLB economist. The population decline has been reversed by immigration from eastern Europe. And while demand for housing and public buildings will keep west German builders busy, the needs in the east are huge. There is enough work for an army of workers until the next century, putting up and renovating homes, offices, shops, factories, and public buildings, not to mention modern power stations, transport links and telecommunications networks.

- Food, drink, and tobacco. This sector has also long been among the weakest performers. This year, it is set to record a 10 per cent jump in production, more than triple the rate of 1989. However, this year's growth rate in the whole sector is obviously a one-off development; next year's is likely to be about 4 per cent.

The reinvigorating effect of unity has masked the effect of falling exports, which in turn are bringing down Germany's embarrassingly high trade and current account surpluses. Goods and money are thus being diverted into a needy east Germany at a time when the country is all too aware that bringing the new states up to the economic level of the west will cost hundreds of billions of D-Marks. Hence the Bundesbank's desire for a strong currency and high interest rates to keep inflation at bay and attract funds into Germany.

Exports, therefore, will continue to suffer. But this is not causing as many alarm signals to sound at German companies as it would have done in past years. "The slowdown in foreign business has not really damaged sentiment in industry," says Mrs Braun-Reiber.

Inevitably, the pace of internal demand will slow down as the post-unity consumption wave fades and recessions elsewhere in the world take greater hold. "Germany is so strongly anchored in world markets that it can't completely escape downward influences from abroad," says Mr Kesseler. Thus, WestLB estimates that west German manufacturing growth will ease to a rate of 2.5 per cent in 1991; the bank is looking for expansion of total gross national product of 3 per cent.

Once the industrial desolation in the new states is followed by rebirth, however painful, economists expect the stimulus for growth from east Germany to continue to liven up the all-German economy for many years, adding up to a percentage point to national growth. Mr Wolfgang Leoni, an economist at Metzler, reckons that even with a high economic growth rate of 8 per cent in east Germany – similar to West Germany's in its postwar "miracle" years – it could take more than 15 years before GNP per head reaches the west German level.

So while consumers cannot continue indefinitely to fuel demand at its present strength, a more resilient phase of investment-led growth in the east should eventually emerge. "There will be a lasting growth impact from the east," says Mrs Braun-Reiber. "Now, it is mainly a German affair, but our solo position will not last. Foreign companies will move in more eagerly once the economy in east Germany picks up."

LOMBARD

An unhappy Christmas for economy watchers

By Samuel Brittan

"Teenage scribblers" is too benign a name for those City writers – by no means all – who, after the UK has been little more than two months in the Exchange Rate Mechanism, are already chafing at its constraints and clamouring for just that devaluation and injection of budgetary red ink that membership was intended (by those who understood it) to prevent. Judging by the one-year forward quotation for sterling against the D-mark on Friday afternoon, the actual financial markets, as distinct from those who claim to speak for them, are working on the assumption that sterling will still be within its present band a year from now.

But one should be adult enough to reject quack medicines without trying to play down the severity of the illness. For the recession, like the boom before it, is much more severe than either the Treasury or the mainstream forecasters to which it likes to compare itself, imagined or expected.

If one averages together the past three months, unemployment is now rising by well over 400,000 a year on a seasonally adjusted basis. The unadjusted figures, on which the media focus when times are bad, are likely to exceed 1.9m in February and could touch 2m if the winter is very severe.

UK manufacturing production in the three months to October fell by 2½ per cent compared with the previous three months – which would be reported in the American style as an annualised drop of more than 10 per cent.

Worst of all, however, is the December CBI monthly trends survey which shows a balance of 30 per cent of respondents expecting a fall in output volume over the next four months. This is the biggest negative balance since August 1980 when it reached 48 per cent. What goes down will usually go up if the surrounding background and policy are right. Nevertheless, I am sure I should be forgiven if I devote this Thursday's Economic Viewpoint to ways in which the self-correcting forces of the economy can be encouraged. (More festive items, such as the bestowal of prizes for the best alternative expression for teenage scribblers, or nominations for president of a *minimalist* European federation, will have to wait until nearer the new year.)

But can we at least say that the UK is gaining some benefits from the squeeze in the shape of reduced inflation?

There is every expectation of so doing. But I am afraid it has not happened yet. Just as the headline Retail Price Index overstated inflation ridiculously when it showed annual rises of 10¾ to 11 per cent in August to October, the latest fall in the headline rate is equally misleading.

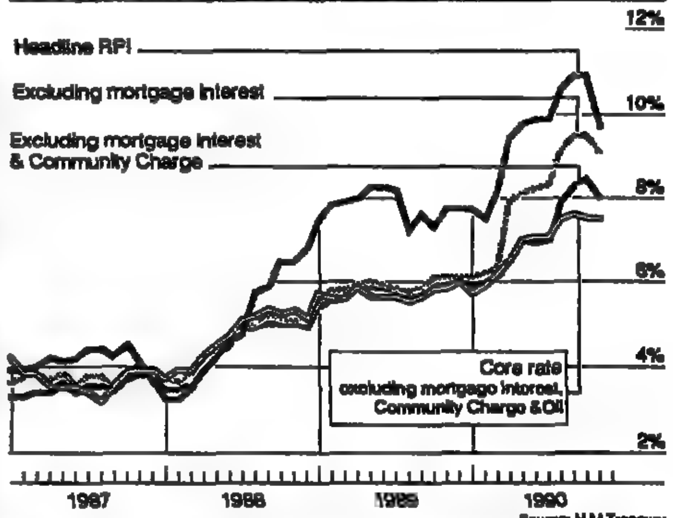
Some three-quarters of the drop in the headline rate to 9.7 per cent reflects the impact of the recent cut in mortgage rates, together with the effect of the November 1989 rise dropping out of the comparison. The remaining quarter reflects falls in petrol and domestic heating oil prices.

The core rate of inflation, excluding the poll tax and mortgage interest distortions and oil, remained unchanged at 7.5 per cent and has indeed hardly altered since August. Perhaps I should explain that which I call the core rate differs from the published underlying rate in excluding oil, as well as mortgage and poll tax charge distortions. Although all the information for the core rate derives from official estimates, some Treasury officials seem to call it the "Samuel Brittan rate", as I may have stimulated them into calculating it.

The headline rate will fall further to about 9¼ per cent in December, as a result of further oil price cuts which came too late for the November index, and there will be some further mortgage effects. Some time in the course of 1991, when the Gulf uncertainties are over, the RPI headline rate will fall below the core rate and it will be the opposition rather than the government who will want to emphasise the latter.

Economics was once known as the theory of price. Yet most of the reports about adjustment to recession involve stock run-downs, lay-offs, asset disposals and almost everything except downward adjustment in prices – and wages are a particularly crucial price, whether people like it or not. Prices will adjust in the end, but until they do it is nonsense to talk of stimulating the economy; and when they do it may not be necessary.

TEENAGERS' GUIDE TO UK RPI



Source: H.M.Treasury

LETTERS

Pay bargainers should beware pitfalls of RPI

From Mr R.H. Price.

Sir, Your leader ("Adapt now or pay later", December 7) rightly indicates that jobs will be needlessly lost unless pay settlements fall. But pay bargainers should beware your proposal of settling on the basis of the forecast retail price index (RPI), plus an element for "feasible" real wage growth, with a guarantee to make up any difference. Had this formula been operating, the majority would have found themselves locked into an arrangement requiring higher settlements than they are actually attaining.

Devolved pay determination clearly works better than could artificial and contrived national "co-ordination". Settling locally by reference to their own circumstances – and the need to remain competitive against international unit labour cost increases of no more than 2 to 3 per cent a year – those responsible for pay rises in the trading sector are achieving lower results than your form of central guidance would have required.

The link between pay settlements and the RPI – whether forward or backward-looking – must be broken if competitiveness and jobs are to be protected. Many elements in the RPI are beyond the control of employers – from the community charge to the price of oil. To tie a cost for companies like labour to something beyond management control – the index of consumer costs – is most unwise. The folly is compounded when the means adopted for containing consumer spending – rises in interest rates – itself feeds through, via mortgages, into the index.

More often than not, average manufacturing settlements have been running a percentage point or so below the RPI over the last quarter. But annual productivity growth, although still outstandingly good in many companies, has fallen back from the rates of 5 per cent or more achieved in the 1980s. That means fewer firms are closing the productivity gap with international competitors. If a damaging deterioration in unit labour costs is to be avoided, pay settlements must fall still further, and quickly. The point is underlined by ERM membership. In France, pay increases fell from about 15 per cent to around 3 per cent following ERM entry, but even so half a million jobs were lost. The lesson for the UK today is clear.

The CBI has never suggested companies should pay real wage increases equal to their individual productivity growth. As we made clear in a letter on these pages on February 21, "the Confederation of British Industry most certainly does not believe that there must be, or can be, some simple one-to-one relationship between changes in pay and changes in labour productivity". Rather the settlement must reflect all of the circumstances and needs of the company. And these vary.

That is why we could not commend your advice. Settling pay on a basis of RPI plus, whether forward or backward looking, would cost companies dear, and their employees too.

R.H. Price,
deputy director-general,
Confederation of British Industry, Centre Point,
103 New Oxford Street, WC1.

Subsidiarity amounts to a platitude

From Mr Andrew Adonis and Mr Andrew Tyrie.

Sir, Your leader writer ("A democratic Community", December 13) should have read Joe Rogaly ("Europe in thrall to a slogan", December 7) before enthusing about subsidiarity as the answer to Britain's fears of burgeoning Community power. As Mr Rogaly says: "it all depends, of course, on definitions – and that is the trouble". For subsidiarity amounts to no more than the platitude: "as much decentralisation as possible, as much centralisation as necessary", which, of course, can mean whatever you want it to.

Jacques Delors, too, has embraced subsidiarity. If M. Delors were also willing to divest the Community of some of the functions which all common sense suggests should never have been given to it in the first place, of which rules on wild birds and cigarette packets are among the more farcical examples, then his claim that subsidiarity could protect the interests of member states might carry some credibility.

Andrew Adonis and Andrew Tyrie,
Nuffield College, Oxford

Intermediaries do benefit some

From Peter G.B. Wills.

Sir, One advantage of the intermediary system for stock lending, not mentioned in your article ("Money brokers step into financial limelight", November 22), is the benefit to small market makers. Under the present system, institutions will lend a variety of stocks, in a variety of sizes, to a moneybroker at a standard rate. The latter splits these stocks between large and small market makers, all of whom borrow on similar terms.

In a direct lending system, institutions would, quite reasonably, prefer to lend large lines of stock to large, well capitalised market makers with substantial parents. The small market makers, who service the private client market, would find it difficult to borrow the small amounts of stock they need except at premium rates. They would have to increase their dealings spreads, and thus the cost of dealing to the private client.

P.G.B. Wills,
consultant, James Capel & Co,
6 Bevis Marks, EC3

Coupling ECB and BERD would enhance City's status

From Charles Park.

Sir, Martin Wolf's article ("Champions enter lists for Emu", December 12) finds that there would be little damage done to the City from the establishment of a European Central Bank in which the UK is not a participant.

This, however, ignores the advantages that can be gained from having the ECB, should it come to fruition, placed in London.

Not only are there employment opportunities to be had from servicing a large organisation (one could cite the example of the Parliament in Strasbourg), but also the financial credence it imparts.

London starts from a base of trust and coupling the ECB to its sister, the BERD, could only enhance the City's status as the leading European financial market.

Charles Park,
11 Redburn Street, SW3.

Out of the evil of the Kuwait crisis could yet arise some good: a strong UN

From Mr Frank Allaun.

Sir, Contrary to US Defence Secretary Cheney's statement that the release of the hostages changes nothing, your editorial ("Linkage good and bad", December 7) rightly welcomes President Hussein's decision. Equally valuable is your appraisal of the new prospects.

What will be even more important, you write, "is an assurance that, if he does withdraw, Iraq will not be attacked". This advice is needed by at least two conservative newspaper editors, who urge that evacuation of Kuwait is not enough. Iraq must be "destroyed", says one paper, and Hussein must be "toppled", declares another.

If the worst disaster – war involving a million servicemen – is to be avoided, it is hardly diplomatic to threaten the intended victim with this.

Hussein has given up – in advance of any discussions – his blackmail weapon – "an important concession on the road to negotiations", as you put it. The trade embargo, particularly on oil, which constitutes 97 per cent of Iraq's exports and which is now complete, is beginning to bite.

Another hopeful sign is that the State Department will not block a UN conference on the whole Middle East, including Israeli/Palestinian peace. It could just be that out of the evil of the Gulf crisis may emerge something the world has been waiting for since the UN was founded 45 years ago: collective security against aggression.

Frank Allaun,
vice-president, CND,
11 Eastleigh Road, Manchester

FINANCIAL TIMES
Monday December 17 1990

ANC presents talks deadline to Pretoria

By Patti Waldmeir in Johannesburg

THE AFRICAN National Congress yesterday ended its most important conference for 30 years with a firm commitment to continue negotiations with the South African government, although it threatened to pull out of talks unless a strict timetable is adhered to.

Delegates voted to maintain ANC support for all existing sanctions against Pretoria, though they agreed that consultations should begin on easing trade, academic, cultural and sporting sanctions.

However, the European Community's decision on Saturday to lift its ban on new investment in South Africa, and to relax other sanctions as soon as apartheid legislation is repealed, pre-empted the ANC's more conciliatory sanctions policy.

Resolutions passed at the end of the three-day conference were couched in militant rhetoric, reflecting dissatisfaction among many of the 1,600 delegates – a large number of whom were youths – at concessions made by their leaders at the negotiating table.

But Mr Nelson Mandela, deputy president of the ANC, appeared to have consolidated his authority over radicals in the movement, with the resolutions appearing to reflect little significant hardening in the ANC position on key issues.

Oliver Tambo (left) at his welcome rally with Nelson Mandela and Walter Sisulu

The ANC did, however, impose a timetable on negotiations for the first time. It warned that it would "consider the suspension of the whole negotiation process" unless Pretoria acts before April 30 next year to halt township violence, release all remaining political prisoners, allow exiles to return, repeal remaining security and other "repressive" legislation and halt political trials.

Progress in these areas has been stalled for months because of a dispute between the two sides over the ANC's decision to continue recruiting and training guerrillas despite its agreement last August to suspend armed action against white rule.

The conference warned Pretoria that it must act to end violence, which has left more than 1,000 people dead since August, threatening that the ANC would consider resuming the armed struggle if this was not done.

Defence committees are to be set up to counter such violence, and will involve members of the ANC's military wing in what officials said was a purely defensive role.

This hardline position, which Pretoria is likely to reject as exacerbating unrest in black townships, reflects consensus within the ANC that violence has been inspired by the state to weaken the anti-apartheid movement.

Mr Mandela stressed in his closing address to the conference that "the overwhelming majority of our people generally and the delegates here in particular support negotiations between the ANC and the government", a statement greeted with applause from the floor.

In a masterful address which showed Mr Mandela at his most imperious, the ANC leader acknowledged criticisms from the floor that the ANC had failed sufficiently to consult its supporters on major policy decisions. "The leadership has grasped the principle that they are the servants of the people and that they must seek guidance from the masses," he said.

But in a remarkably candid attack, Mr Mandela firmly put down radicals within the ANC "who play to the gallery, whose aim ... is to prove how revolutionary they are ... who are incapable of putting forward constructive ideas and who are quick to pull down what others have built."

Inching in from the global cold, Page 4

US-Iraq Gulf talks postponed indefinitely

By Peter Riddell in Washington and Richard Tomkins in Baghdad

THE FIRST of the proposed direct talks between the US and Iraq due to take place today have been postponed indefinitely, amid continuing brinkmanship over the timing of meetings but some fears that the chances of a peaceful solution may be fading.

Iraq confirmed yesterday that Mr Tariq Aziz, the foreign minister, would not be leaving Baghdad because the two countries had yet to agree a date for the reciprocal visit to Baghdad by Mr James Baker, the US secretary of state. Mr Baker was last night flying to Brussels for a meeting with Nato foreign ministers.

The US is seeking to avoid a Baghdad meeting too near the January 15 UN deadline for Iraqi withdrawal from Kuwait.

The dispute, accompanied by increasingly strong language used by each side, points to a hardening in both sides' positions.

Mr Latif Jassim, Iraq's information minister, said yesterday: "If we start from a position where the US is dictating dates to us, then what are the chances of a serious dialogue taking place?"

Several US senators currently visiting Saudi Arabia yesterday expressed concern that the region is nearer to war and urged early agreement on the meetings.

Democratic Senator Bob Graham sensed that "the prospects of war are greater than they were two weeks ago in large part because of the way in which President Saddam Hussein is using the meeting as a form of manipulation rather than serious discussion."

Similarly, Rear Admiral Riley Mixson, commander of the US Navy Red Sea task force, said Iraq was acting as if it was preparing for war and the chances for peace are "no better than 50/50".

Mr William Webster, the director of the Central Intelligence Agency, said at the weekend that the Iraqi leader would not withdraw his troops from Kuwait until convinced he "is in peril of imminent military attack". Until then, the CIA believes, Iraq will try to stretch out the crisis by moves short of the United Nations resolutions.

The danger, Mr Webster suggested, is that the Iraqi leader would continue to believe he could succeed "until the first shell is lobbed over him".

One prospect of an early breakthrough rests on the possibility of talks later this week between Mr Aziz and EC ministers in Rome. Mr Aziz had earlier accepted an invitation to call on EC ministers on his way back from Washington.

It was not clear in Baghdad yesterday whether this invitation would remain open with the Washington meeting called off. Iraqi officials said Mr Aziz was still ready to meet EC ministers.

Within the US, Congressional pressure increased for much larger contributions by Saudi Arabia and other Gulf states, which have benefited substantially from higher oil prices, as well as by Japan and Europe to the costs of the military operation and of economic assistance to states hit by the crisis.

Mr Richard Gephardt, the Democratic House majority leader, released figures showing that pledges of support from allies in Operation Desert Shield will cover only 29 per cent of the estimated $37bn first year costs.

Second man is held with Polly Peck chairman

By Clay Harris and Richard Waters in London

MR Asil Nadir, chairman of Polly Peck International, was still being held last night at Holborn police station in central London after being arrested on Saturday at Heathrow airport as the result of a Serious Fraud Office investigation.

A police spokesman said last night: "The investigation is continuing and at this stage I cannot tell you anything further."

A second man was arrested yesterday and was being questioned last night at Holborn.

Mr Nadir, under whom Polly Peck grew into a company valued at nearly £2bn ($3.8bn) before a precipitous collapse, had been in Turkey and his native northern Cyprus for a month before he returned to Britain on Saturday.

Mr Nadir had been scheduled yesterday to meet administrators appointed in October to oversee the affairs of the fruit, electronics and leisure company which has liabilities of more than £1.3bn.

Two of the three administrators, Mr Richard Stone and Mr Christopher Morris, warned yesterday that the arrest might hinder their work. Administrators previously complained of "disruption" after the SFO searched Polly Peck's London offices on October 30 and removed papers.

Mr Morris, who was appointed to look into possible claims against Mr Nadir and his fellow directors, as well as against the company's auditors and legal advisers, is thought to be investigating whether any of Mr Nadir's actions may have contributed to the group going into administration.

Saturday was also the first time Mr Nadir had entered Britain since the home secretary, ordered a fuller inquiry into "certain matters" concerning Mr Wyn Jones, an assistant commissioner of the Metropolitan Police whose relationship to Mr Nadir had been investigated earlier.

Mr Nadir was first questioned by the SFO on September 20, the day after it sent police officers to search the premises of South Audley Management, a private company owned by family trusts of which Mr Nadir is a principal beneficiary.

On that occasion, Mr Nadir voluntarily accepted an SFO invitation to be interviewed. He was served with a notice under Section 2 of the Criminal Justice Act obliging him to answer all questions.

Polly Peck's shares were suspended the same day after losing more than half their value in a few hours' trading. Administrators were appointed on October 25, and the SFO searched the company's headquarters five days later.

Background, Page 22

BBC to broadcast World Service on TV

By Raymond Snoddy in London

THE GULF crisis has persuaded the BBC to launch a daily television version of its World Service radio news programme in the spring.

The programme, which will provide part of the output of a new corporation subsidiary, BBCTV International, is due to start in March but could be aired sooner if Gulf hostilities begin.

The news programme will initially run for half an hour. The aim is to move to three programmes a day within 12 months and add different language versions, possibly German and Japanese.

Mr John Tusa, managing director of the BBC World Service, said yesterday: "The crisis in the Gulf shows more clearly than ever the urgent need for World Service Television News.

"This new venture will provide [BBCTV International] with the springboard for us to launch a daily bulletin early next year."

After a period spent trying to raise external finance for a television version of the World Service, the BBC has decided to go it alone with a £6m loan arranged by J. Henry Schroder Wagg, the merchant bank.

The TV news service is being linked with the existing BBC TV Europe, available by satellite to nearly 7m homes in Europe almost entirely through cable television networks. About 1m subscribe to the service.

The World Service television news will be part of the 18 hours-a-day subscription service broadcast all over Europe by the Intelsat VI satellite.

Apart from world news the relaunched satellite service will include BBC English language teaching programmes.

Mr Christopher Irwin, controller of resources at the BBC World Service, will become chief executive of BBCTV International.

"By developing the BBC's international business we aim to create a TV equivalent of BBC World Service," he said.

Finance will come from the existing European earnings of BBC Enterprises, the commercial arm of the corporation.

The World Service Television News will also be sold to other countries for rebroadcasting.

Attempts to set up a television version of the radio World Service go back to the early 1980s but the government, which funds the radio World Service with a grant, refused to put money into a television equivalent.

Apart from its own editorial resources the BBC has agreements to broacast news footage from Visnews, the international television news agency, and NBC, the US network company.

Finance groups call for rapid Soviet reforms

Continued from Page 1

ing to restructure, and establishing a social security safety net for the poor and jobless.

It suggests that Soviet prices for energy and raw materials cannot be raised to world market levels swiftly without bankrupting most Soviet enterprises, and suggests a temporary system of border taxes to protect them. However, it also says that such measures must be phased out within a timescale of two to three years.

The final version of the document is expected to be published in Washington this week, before it is presented to the Finance Ministers of the Group of Seven industrialised nations in January.

However, it is understood that the study will caution against granting substantial western aid until a coherent economic reform process is under way. Instead is is likely to recommend that such assistance be concentrated on technical, legal and analytical advice rather than the payment of big loans.

US bank deposit fund warned that it may lose $5bn in 1991

By Peter Riddell, US Editor, in Washington

THE FEDERAL FUND which insures US bank deposits is likely to lose $5bn in 1991 following an expected $4bn loss this year, Mr William Seidman, chairman of the Federal Deposit Insurance Corporation, warned yesterday.

Mr Seidman said the fund, already at its lowest level in its 56-year history, could drop to $4bn in reserves by the end of next year, which was "clearly not sufficient; that's why we need a recapitalisation plan."

Mr Seidman and the US Treasury are working on a recapitalisation plan which would be paid for by the banks.

Mr Nicholas Brady, US Treasury secretary, stressed that the recapitalisation would be accomplished "through private sources alone, that is, the banking community".

He also drew a sharp distinction between the collapse of the savings and loan industry, which had $10bn of reserves when it got into trouble, and the banking sector which now has reserves of $200bn-plus.

Their comments were made on the eve of the release of report prepared for a House banking sub-committee which warns that the deposit insurance fund will not have enough money to cover expected bank failures over the next three years unless its resources are increased.

At most the fund will have $29bn-$32bn over the next three years, compared with a conservative estimate of cost of between $31bn and $43bn.

The total requirement may be as much as $63bn if there is a deeper recession.

However, Mr Seidman yesterday noted that with recapitalisation the fund would have more than $50bn in hand.

"So at worst there would be a small additional amount needed to be borrowed from the Treasury."

Mr Seidman was also highly critical of banks for continuing to maintain dividends when their earnings fall sharply.

He will be working with other bank regulators to develop new controls in this area.

Ahead of a meeting of the Federal Reserve's policy making Open Market Committee tomorrow, Mr Brady said there was "ample room for a further reduction in interest rates".

He declined to say whether the US was in recession, though he acknowledged that there was a "significant slowdown".

He said this was "a cyclical downturn. It will return to a good, strong level sometime in 1991."

Similarly, Mr Michael Boskin, chairman of the president's Council of Economic Advisers, said yesterday that any recession should be "mild and brief" if it occurred and he went on to predict that there would be a recovery next year.

THE LEX COLUMN

Sawing the chair in two

The argument about splitting the jobs of chairman and chief executive in UK companies is plainly not going away. In the past ten days the bosses of both Siebe and Carlton Communications have been moved to state publicly that they intend to appoint chief executives below them. A chairman is being sought to curb the exuberance of Mr George Walker of Brent Walker. BOC is to split the two functions at the start of next year, only to join them up again a year later.

It is not surprising that as the UK goes into recession some institutional shareholders should seek to limit the power of the more autocratic type of manager, at least in those companies which are creaking under the strain. But it is dangerous to assume that one structure is better than another regardless of the character of the company. It is not obvious that Mr Tiny Rowland of Lonrho is constrained by having a chairman set over him, nor Lord Weinstock of GEC. On the other hand, some of the more old-fashioned banks and insurers might benefit from swapping their traditional figurehead chairmen for more professional managers.

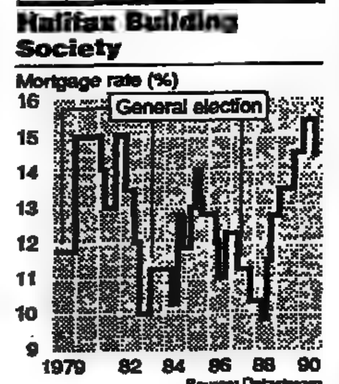
Much of the argument comes down to differences in corporate culture. ICI gets on very well with a combined chairman and chief executive, but has kept a vigilant eye on each incumbent ever since the twenty-year tyranny of Lord McGowan ended forty years ago. And since ICI tends to bring its directors up through the ranks, the chairman is surrounded on the board by powerful divisional barons very much like himself.

Similarly, a company like BOC can combine the two jobs precisely because it has a managerial culture stretching back over several generations. It also controls the chairman through a team of non-executives who exclusively man the audit and compensation committees and can act as an upper supervisory tier of the board in case of crisis. If the culture does not exist, it cannot be invented overnight. There seems precious little point in trying to impose such a structure on a first-generation entrepreneur like Mr Walker. You either take him as you find him or not at all.

Mortgage rate

The recent tough words on interest rates from various UK Treasury ministers cannot disguise the fact that the political clock is ticking away all too fast. There will be an election within the next 18 months and UK mortgage rates are still standing at their second highest level ever. They have to come down, and quickly too.

Halifax Building Society



The Government's chance of re-election would improve considerably if mortgage rates were cut by around a quarter, say to around 11 per cent, by election time. The growth in home ownership from 56 per cent to 67 per cent over the last decade is one of its real success stories. But to win re-election the Tories need to capture the votes of many of the 1.4m households which bought their council houses during the period. It is those skilled working class voters, so important to Tory election hopes, who are feeling the brunt of penal interest rates.

The pressure for an early cut in mortgage rates is even more intense than this timetable suggests. Around 40 per cent of the country's 9m mortgage borrowers have their mortgage payments fixed once a year, with the agreements heavily weighted to the opening months of the year. Last October's ERM-inspired cut in interest rates only neutralised the previous one per cent rise in February. The 3.5m or so borrowers on annual mortgage agreements are not going to enjoy any reduction in their monthly mortgage payments unless the authorities engineer a sizeable cut in interest rates within the next couple of months.

In the case of the vast majority of the Halifax's borrowers, for example, the mortgage rate will have to be cut before the end of January if it is to lead to lower payments next year. Given that the spread between base rates and mortgage rates is unusually narrow, base rates will probably need to be reduced by at least 1½ percentage points to trigger a one point cut in mortgage rates. The current bearishness is good for building society inflows. But next year they will be wanting to rebuild their margins, especially if any recovery in the equity market means they have to compete more aggressively for funds.

This is the political backdrop for current interest rate policy. Base rates will probably have to fall to 12 per cent to get mortgage rates down to 13 per cent. This is still unusually high by historical standards and is not going to prevent a politically damaging recession. Despite the brave words of a new and untried Chancellor, the political pressure to cut interest rates is intensifying. The point has not been lost on the foreign exchange markets.

Capital goods

As the UK economy started slipping downhill this year, so investors stopped talking about earnings multiples and went back to stressing dividend yields. Perhaps the next ratio to start watching closely concerns order book backlogs, particularly in heavy capital goods. And for better or worse, in view of the huge European cross-border mergers and alliances since 1987, this means thinking in continental rather than narrowly British terms. An interesting investment theme for 1991 is the fact while earnings per share are either static or falling this year for the sector's juggernauts - Asea-Brown Boveri, GEC and Siemens - the order books are still sound.

Lord Weinstock's cautious comments with GEC's half-yearly figures and the group's decision not to raise the interim pay-out are not hopeful signs, and the group's strategy is not yet proven. But a lot of the caution relates to defence electronics and the domestic UK bits of GEC. It is striking that at £11bn, GEC's overall order book is still standing at over 90 per cent of this year's likely group sales. One can find similar or better ratios at ABB, Siemens and France's CGE.

Demand may be slowing rapidly for smaller products, especially electrical equipment for the building trade, something which has been hurting the likes of the UK's Hawker Siddeley. But at the bigger end, in power generation and rail transportation especially, the order book picture is healthy, thanks to things like the French *trains à grande vitesse*, not to mention East Germany. Added to that is the simple fact of market concentration – possibly bad for the European customer, but comforting for the shareholder in times like these.

WORLDWIDE WEATHER

Temperatures at midday yesterday. C—Cloudy Dr—Drizzle F—Fair Fg—Fog H—Hail R—Rain S—Sunny Sl—Sleet Sn—Snow Sa—Sand T—Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday December 17 1990

INSIDE

Kerkorian's baffling charge into Chrysler

Mr Kirk Kerkorian has a reputation as one of America's most skilled traders in corporate bits and pieces. But his latest move has Wall Street completely baffled. It was revealed last Friday that he has spent just over $270m buying up 9.8 per cent of the common stock of Chrysler, the third largest US automobile manufacturer and a company with a large question mark over its long-term health. Martin Dickson reports. Page 18

Linking Ireland with France

France's government bond market has replaced that of the UK as the benchmark for investors in Irish government securities. Fund managers track the relative performance of the French and Irish markets and switch funds between the two. Page 20

Into the Moulinex blender

Moulinex

A boardroom row has been settled, and Moulinex, the French maker of kitchen equipment, has decided to pursue its takeover of Krups, the German household appliance group. The argument was settled when Mr Jean Mantelet, Moulinex's 90-year-old founder, who has been in semi-retirement for the past two years, conferred his post as group president to Mr Roland Darneau, who was already managing director. Page 19

French Eurobonds display a marked change of image

It has shrugged off its image as a quiet haven for French retail investors. This year the French franc Eurobond market has become actively traded and truly international. The market's development has been boosted by the surge in new issue volume, the strong performance of French government bonds and growing international confidence in the French currency. In addition, a more aggressive stance on marketing and trading by the French banks had paid off. Page 21

Market Statistics

Companies in this section

Gencor denies deal with Lonrho

By Philip Gawith in Johannesburg

GENCOR, South Africa's second largest mining house, yesterday denied speculation that it was considering an outright merger with Lonrho, a move which would create one of the world's largest mining groups.

Mr Derek Keys, Gencor's executive chairman, said in a statement, "Gencor is not considering merging with Lonhro. At the divisional level there are discussions from time to time aimed at possible synergies between businesses in the two groups." Mr Paul Spicer, a Lonrho director, refused to comment on the speculation yesterday.

Observers thought it likely that exploratory merger talks have taken place without progress having been made. In South Africa there has been speculation that something might be going on between the two groups. This was fuelled by the recent behaviour of the Lonrho share price on the Johannesburg Stock Exchange (JSE) which suggested strategic rather than purely investment buying.

In August and September the share price was respectively the fifth and third most actively traded share on the JSE. One analyst estimates that the three Cape based life offices – Old Mutual, Sanlam and Southern Life – bought approximately 11 per cent of Lonhro's equity during the period. Most of the deals were booked through local Afrikaans brokers Ed Hern Rudolph which lent credence to the rumours, given that Gencor's ultimate parent is Sanlam, the predominantly Afrikaans life office.

Gencor and Lonhro are already co-operating successfully in platinum. In October 1989 Gencor merged their new platinum operation Karee with Lonhro's contiguous Western Platinum operation. In return Impala Platinum, Gencor's platinum arm, acquired slightly over 25 per cent of the equity and 27 per cent of the profits of the merged mines and of Eastern Platinum, a Lonhro operation.

Local analysts are split as to whether a full-blown merger would make sense. Some wonder what interest Gencor would have in some of Lonhro's activities such as agriculture and hotels and suggest co-operation will probably be limited to the platinum field. Others see merit in the idea, suggesting that Mr Tiny Rowland, 73-year-old head of Lonhro, might be looking for a means of bolstering his management team and bringing in a successor.

Administrators track Polly cash

By Richard Waters and David Barchard in London

MUCH OF the £200m of cash belonging to Polly Peck International which had previously been untraced appears to have been invested in hotels, holiday villages and other leisure developments, according to the group's administrators.

The money represents the bulk of the £300m ($585m) shown in Polly Peck's unaudited management accounts at the end of June as cash deposited in the near East.

The administrators had earlier been able to trace only around £100m of this, and had been hampered by a court injunction in northern Cyprus which barred them access to Polly Peck's subsidiaries on the island.

The two administrators responsible for investigating the finances of the fruit, electronics and leisure group – Mr Michael Jordan and Richard Stone of Coopers & Lybrand Deloitte – said in a statement yesterday: "It would appear that a sizeable proportion of the cash balances reputed to be in the island have been invested in property assets in the island and Turkey, largely associated with leisure property."

They gave no indication of the scale of these investments, or whether they had been made before or after the June management accounts which showed them as a cash balance.

However, the 405-bed Sheraton Voyager hotel, opened as recently as September, cost over £50m to complete. Cash held in the near East decreased by £160m between the end of June and the end of September, according to the management accounts. This has been explained by Polly Peck executives in London as the result of a seasonal increase in working capital. The administrators gave little away yesterday about the state of Polly Peck's businesses in the near East, the powerhouse of its steadily rising profits in recent years.

They reported only that Meyna, the fruit and vegetables subsidiary in Turkey, and the related packaging business had been profitable last year and in the first half of this year. These businesses had suffered a "sharp impact" as a result of the Gulf crisis, but still appeared to be operating profitably.

Mr Peter Knight, Mr Asil Nadir's lawyer, from law firm Vizards leaves Holborn police station late yesterday afternoon

While the administrators have said little about what they have found since gaining access to Meyna in the past fortnight, bankers and analysts in Turkey have repeatedly questioned the scale and profitability of its operations. Its citrus fruit business in the port of Mersin had export earnings of $4.5m last year, making it the town's fifth largest exporter.

This does little to explain its reputation among City analysts as Polly Peck's biggest single profit earner. Mr Stone has said in recent weeks that most of Meyna's earnings come from the domestic Turkish market – a suggestion that is questioned by industry and financial sources in Turkey, where Meyna is regarded as a relatively minor force in the local market.

Mr Nadir left the UK for Istanbul and Cyprus on November 17. Since then, while several of his personally-owned businesses have changed hands, none of Polly Peck's businesses has been sold. For several weeks, its administrators have been saying that they do not plan to sell off any of its businesses, at least until late March when they are due to present proposals for the group's future to 60 creditor banks.

One of the group's star performers, Vestel, the Turkish consumer electronics group, last week said it had been given a $10m loan by Goldstar of Korea to help tide it over.

Some of Mr Nadir's personal businesses have not been as lucky. Ten days ago, Bozkurt, one of his newspapers in Cyprus, was shut down. A similar fate overtook two Istanbul based magazines, Gelişim Spor and Erkekce last week. A satellite television joint venture with a German company has also been liquidated.

Last week buyers were found for Impex Bank of Istanbul, the small trade finance bank bought by Mr Nadir last year. It was sold for about $25m.

Other enterprises, especially Mr Nadir's loss-making press empire, are struggling to remain afloat. Mr Nadir's principal lieutenant in Istanbul, Mr Fahri Görgülü, a former provincial governor and one-time Turkish police chief, noted for his toughness, has played the main part in keeping the show on the road, trying to drum up funds to pay discontented employees at Mr Nadir's papers.

Although it was generally reckoned that the newspapers (Mr Nadir owns three in Istanbul, another three in Cyprus, and several of Turkey's leading magazines) would be the last to go, there was speculation last week that a French publishing group might be willing to buy them. Several Turkish publishers say they would like to buy Gelişim Yayinlari, Mr Nadir's magazine company.

Throughout the past month, few Turks were even aware that Mr Nadir was in Istanbul, still less that he had paid an unpublicised one-day visit to Ankara for talks with the government, evidently in a fresh appeal for help.

No longer the stuff of Turkish headlines

THE ARREST OF Mr Asil Nadir was only the third news item when it was finally announced on Turkish radio at 2pm local time yesterday, a sign of how Polly Peck International has slid from the top of the political agenda since the early autumn, writes David Barchard.

In recent weeks, the Turkish government has disclaimed all knowledge of the company's affairs – even though in September, one of President Turgut Ozal's ministers wrote to the UK government pressing the case for a rescue operation.

"Polly Peck is a British company and Mr Nadir is a British business man, not Turkish," an Ankara government official said recently. He was not wholly correct: Mr Nadir has Turkish and Turkish Cypriot nationality, as well as British.

Mr Güneş Taner, minister for economics and the government minister responsible for handling the Polly Peck affair, has brushed aside questions for nearly three months, telling journalists who pressed him at cocktail parties: "You wouldn't expect Douglas Hurd [the UK foreign secretary] to reply on this sort of thing."

Opposition politicians and journalists privately accuse the government of partiality. Few people in Turkey seem to have bought the line that its troubles were simply the result of a Greek Cypriot dirty tricks campaign, although Mr Rauf Denktash, the Turkish Cypriot leader, said yesterday: "Had Asil Nadir not been involved in Turkey and Turkish Cyprus he would not have run into these difficulties."

One of the group's main Turkish critics, the left-wing weekly magazine, Towards 2000, was shut down in June by the government, using special emergency powers aimed at suppressing dissent over the country's guerrilla war against separatist Kurds.

But over the last three months, coverage in the rest of the Turkish press has been remarkably limited, despite a welter of attacks on Mr Nadir in the past. "I thought that this was because no one understood a financial scandal here, but actually there seems to be a sort of secret embargo on the news," said one Turkish journalist after his investigative story failed to see the light of day. "But it may only be because newspaper proprietors are hoping to buy some of Mr Nadir's titles and don't want to offend him."

Most Turks until yesterday thought that Mr Nadir's problems were over. The latest turn is likely to be deeply embarrassing for Mr Ozal and Mr Günes.

Additional reporting by John Murray Brown in Ankara.

Struggle to secure News Corp refinancing

By Stephen Fidler, Euromarkets Correspondent

A $7bn loans package necessary to allay a liquidity crisis at News Corporation, Mr Rupert Murdoch's debt-laden international media group, is proving a struggle to complete, according to bankers familiar with the transaction.

A minority of the company's 150 bank lenders are objecting to the package, which aims to reschedule repayment dates on $6.5bn of debt owed to banks and provide the company with a new short-term loan of $600m.

The bankers said that by late last week around three-quarters of lenders had agreed to the proposal. One deadline passed without incident this month and the package may now not be agreed, as planned, by the year end.

The restructuring is necessary because of the heavy repayments schedule faced by the company next year. International banks have become extremely cautious about lending to highly-indebted companies and normal loan arrangements to refinance maturing debts would, it was thought, be impossible to arrange. While the support of the company's main lenders appears to be assured, some smaller banks in the lending group have said they want to be paid back. However, many lenders will usually only agree to such restructurings if all banks are treated equally.

The three-year restructuring allows for an $800m repayment at the end of the first year and four semi-annual repayments of $400m after that, a rate of repayment which bankers say suggests asset sales are likely. Lenders will be paid an extra 1 per cent on their current lending margin, and a front-end fee of 1 per cent.

Around 25 larger lenders are being asked to provide the extra $600m in a 364-day loan, although other banks are free to join if they wish. That pays a margin of 2 per cent over interbank rates, rising to 2.5 per cent after six months. A 1.5 per cent fee is offered to participating banks.

A separate $1bn in loans arranged by Manufacturers Hanover to finance the takeover of the publisher, Harper Collins, is not included in the package.

The leading banks, led by Commonwealth Bank of Australia in Australia, Citicorp in the US and Midland Montagu in the UK, are said to remain confident the restructuring will ultimately be agreed, because banks recognise the alternative – the collapse of News Corporation – would be disastrous.

Economics Notebook

Japan gets to grips with bubbles

There is a growing acceptance that booms can eventually burst

"BUBBLE" has at last become an 'in' word in Japanese financial circles.

Normally, Japanese are quick to adopt the latest buzz words and labels from abroad, as well as being adept at creating a few of their own, such as zaitech and the short-lived heaven and hell bond.

But, for fairly obvious reasons, they resisted as long as possible suggestions by (envious?) foreigners that Japan's financial and economic booms of the past few years had many characteristics of previous great bubbles, with the implication that they would ultimately burst.

In the wake of this year's 40 per cent slump in the Tokyo stock market and the more recent sagging of property prices, it has become more difficult to avoid the word, and most people have stopped trying. Indeed, it was given acceptable status last week when Mr Yoshihisa Tabuchi, president of Nomura Securities, evoked four bubbles in a party speech.

There were, of course, the stock and property market bubbles which, he hoped, had already burst. Then there was the bank asset bubble, and it was not quite clear that he would regret seeing it burst. And, finally, he cited a consumer spending bubble – an observation which perhaps revealed more about Mr Tabuchi's discomfort with some affluent life styles in Japan these days than about the economy. By any standard, Japanese remain modest consumers relative to their spending power.

Mr Tabuchi went on to relate bubbles to beer, noting that even after all the froth was taken off, the beer underneath still tended to taste good. Indeed, he felt that despite the setbacks suffered by the Japanese financial markets and economy this year, the underlying beer was still tasting much better than it was four years ago.

He has a point. One cannot help but feel that some of the gloom and doom emerging in recent analyses of the prospects for Japan's economy and financial structure are rather overdone.

No doubt the long boom that began in the spring of 1987 is coming to an end, but the economy has shown remarkable resilience this year in the face of the stock market slump and the Gulf crisis. While the US and the UK are sliding into recession, Japan is cruising to nearly 5 per cent real GNP growth in the fiscal year to March, 1991.

The problem is the outlook for next year. The coincidence of the end of the cycle with a series of major external uncertainties – the possibility of war in the Gulf, the danger of the world trading system crumbling and the threats to the stability of the world financial system – provide a testing challenge to those who would forecast what will happen in an economy as sensitive to world economic currents as that of Japan.

But unless things go very wrong, it is difficult to see Japan suffering as much as many other countries. It is in surplus in both the public and private sectors, so the government can easily start the pump if circumstances warrant. And its industries have been investing at a cracking pace to maintain their competitiveness. The fruits from some of that investment – aimed at using energy more efficiently – have been impressively on display in the past few months when the rise in oil prices has scarcely been felt in the economy.

At a time of potentially momentous upheavals, the consensus view is less valuable than it would be in normal times. But, for what it is worth, most Japanese economists believe that the economy will grow at something between 3.5 per cent and 4 per cent next year. In Europe or the US, that would be the best that could be hoped for at the peak of the cycle. In Japan, however, anything less than 3 per cent would represent a recession, in the sense that the contraction from the current high growth rate would hurt profits and employment.

The strains in the Japanese financial system do give real cause for concern, but these too can be exaggerated, as Japanese bankers do not hesitate to point out to their foreign friends these days. Yes, banks' capital ratios have slipped below 8 per cent, but very few have gone under 7 per cent and still fewer below 6 per cent. And even though liberalisation has proceeded apace, it is at least arguable, given the well known Japanese collective support instinct, that a Japanese bank with a 5 per cent capital ratio is still safer than a US one with an 8 or 9 per cent ratio.

Similarly, it is easy to exaggerate the impact of the stock market slump. The figures involved are nothing short of staggering. From the peak at the end of last year to the bottom on October 1, Y300,000bn ($2,145bn) was wiped off share values. A fall of that magnitude in the US or the UK would have severe repercussions but in Japan, where some 70 per cent of shares are closely held by financial institutions and industrial companies, no real pain or squeeze is being felt by most investors. The value of their share portfolios has simply come back to where it was three years ago. Of course, if the market tumbles another 40 per cent...

External balances

For the past five years, virtually every presentation or treatise on the Japanese economy opened with a discussion of external balances. First, the question was when the country's trade and current account surpluses would stop growing. Later, the focus was on whether or not they would come down fast enough to prevent the US from taking some retaliatory action.

At a recent informal gathering at the Bank of Japan, discussion proceeded for a good 20 minutes without the subject of external balances coming up at all. The reason, of course, is that they have been dropping rapidly and are no longer a source of daily bickering between Japan and its trading partners.

Similarly, while the world's economic policy makers used to wring their hands over whether enough Japanese capital would flow into US treasuries to enable the Fed to avoid raising interest rates, it turns out there was nothing to worry about.

The US government funding requirement today is bigger than ever, but capital is now flowing into Japan rather than out of it, and US interest rates have actually declined. "The world is more resilient than we thought," a senior Bank of Japan official said drily.

Ian Rodger

Aker turns down Euroc merger plan

By Karen Fossli in Oslo

AKER, one of Norway's biggest industrial groups, has rejected a merger proposal from Euroc, the Swedish cement and building materials group.

The deal would have created one of Scandinavia's biggest companies with an annual turnover of NKr25b ($4.3bn) and a staff of 23,000.

Aker and Euroc have had close ties for several years. They own a joint cement venture, Scancem International, and in 1988 they jointly acquired Castle Cement, the second largest UK cement producer, from RTZ of the UK for £230m.

Aker's board, according to Aftenposten, Norway's leading daily newspaper, was approached by Euroc at the end of last month. This was followed by a rival merger proposal from Kvaerner, another big Norwegian company, which sought to block Euroc. The latter wanted to dispose of Aker's offshore contracting operation.

Asea Brown Boveri (ABB) is understood to have been a key force behind Euroc's merger plan because of its interest in Aker's offshore contracting operations. ABB wants to merge this part of Aker with Electrisk Bureau (EB) its Norwegian offshore electrical contractor.

However, Aker's vulnerability to a takeover has been reduced due to a considerable improvement in its financial health this year.

After a series of earlier ill-fated investments, which cost it close to NKr3bn, it has significantly improved its financial position by divesting a large part of its investment portfolio. Because of this Mr Gerhard Heiberg, Aker's board chairman, says the timing for a merger is not ripe.

Citicorp securitises Thyssen steel contract

By Tracy Corrigan

CITICORP Investment Bank has arranged a $60m placement of floating rate notes, backed by the future payment flows from the sale of steel to Thyssen, the German industrial group.

It is the first securitisation of the cash flows from a long term supply contract placed in Europe, but the market could grow swiftly, given the billions of dollars of trade contracts which could be repackaged in this way. In securitisation, various types of assets can be restructured to provide a cash flow which provides interest and redemption payments of the asset-backed debt.

The issue allows Siderurgica del Turbio (Sidetur), the steel-producing subsidiary of leading Venezuelan industrial group Sivensa, to tap a fresh investor base. Other South American borrowers have tapped the Eurobond market, but in many cases the debt has been placed mainly with "flight-capital" investors – that is, high net worth individuals from the home market. This new structure could provide a fresh source of funds for similar borrowers.

For investors, the structure of the deal avoids any uncertainty over Venezuelan credit risk, since the debt is issued through a special purpose vehicle called Tytan Securities, outside Venezuela.

The floating rate notes are secured on the future payments for steel deliveries. These payments will be made by Thyssen Sudamerica NV, the Latin American trading subsidiary of Thyssen, the German industrial group. Effectively, the Thyssen payments will pass through the vehicle to pay interest and redemption of the notes.

The notes have an average life of three years and pay interest at 1¾ points above six-month Libor. Fees are undisclosed.

TVS quiet on directors resignations

TVS Entertainment will be under pressure from the City to explain what is going on following the resignation of two non-executive directors from the board of the ITV contractor for the south of England, writes Andrew Bolger.

The company refused to give any reasons for the departure of Baroness Pamela Sharp, who had been on the board for nine years, and Mr John Elton, a director of British Alcan and a former director of Consolidated Goldfields and Hill Samuel, the merchant bank.

Mr Elton was one the company's main links with the City, which had already identified TVS as the ITV contractor most likely to lose its franchise in next year's rebidding process.

TVS shares have fallen sharply since it paid $320m for MTM Entertainment in 1988, only to see the US production house plunge into losses last year.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Volkswagen (Germany)	Skoda (Czechoslovakia)	Car making	N/a	£3bn+ investmnt planned
Volkswagen (Germany)/ Ford (US)	Joint venture	Car making	N/a	To build space-wagon
Barclays (UK)	Européenne de Banque (France)	Banking	£100-£200m est	Barclays' push into Europe continues
RWE (Germany)	Vista Chemical (US)	Chemicals	£305m	Buyout bought out
MD Foods (Denmark)	Associated Fresh Foods (UK)	Food	£92m	Sale preferred to float
ISS (Denmark)	Units of Electrolux (Sweden)	Contract cleaning	£70m	Big step for ISS
Böhler (Austria)	Uddeholm (Sweden)	Tool steel making	N/a	Merged company world's biggest
BSN (France)	Galbani (Italy)	Food	£41m	BSN now has 50%
Alcatel (France)	Telettra (Italy)	Telecoms equipment	£118m	Alcatel now has 75%
France Telecom/Southwestern Bell (US)/ Carlos Slim (Mexico)	Telmex (Mexico)	Telecoms	£909m	Group wins controlling stake

Source: FT Mergers & Acquisitions International

An investment that baffled the Wall St pundits

Martin Dickson looks at Kirk Kerkorian's puzzling $270m stake in Chrysler

IN THE Hollywood hills, where the clash of outsized egos has raised the catty one liner to an art form, there is a saying that you should never, never buy anything from Mr Kirk Kerkorian.

For Mr Kerkorian has a reputation of being one of America's most skilled traders in corporate bits and pieces – a man who has amassed a $1bn personal fortune through a lifetime of West Coast wheeling and dealing.

The son of an immigrant Armenian fruit-seller, he once stranded himself at Madrid airport by selling his private jet on the tarmac to Mr Adnan Khashoggi, a Middle Eastern middle man.

And just last month, at the age of 73, he capped his career by selling MGM/UA, the Hollywood film and television studios, in a $1.3bn deal to Pathe Communications.

But Mr Kerkorian's latest move, revealed last Friday, had Wall Street completely baffled: he spent just over $270m buying up 9.8 per cent of the common stock of Chrysler, the third largest US automobile manufacturer and a company with a large question mark over its long-term health.

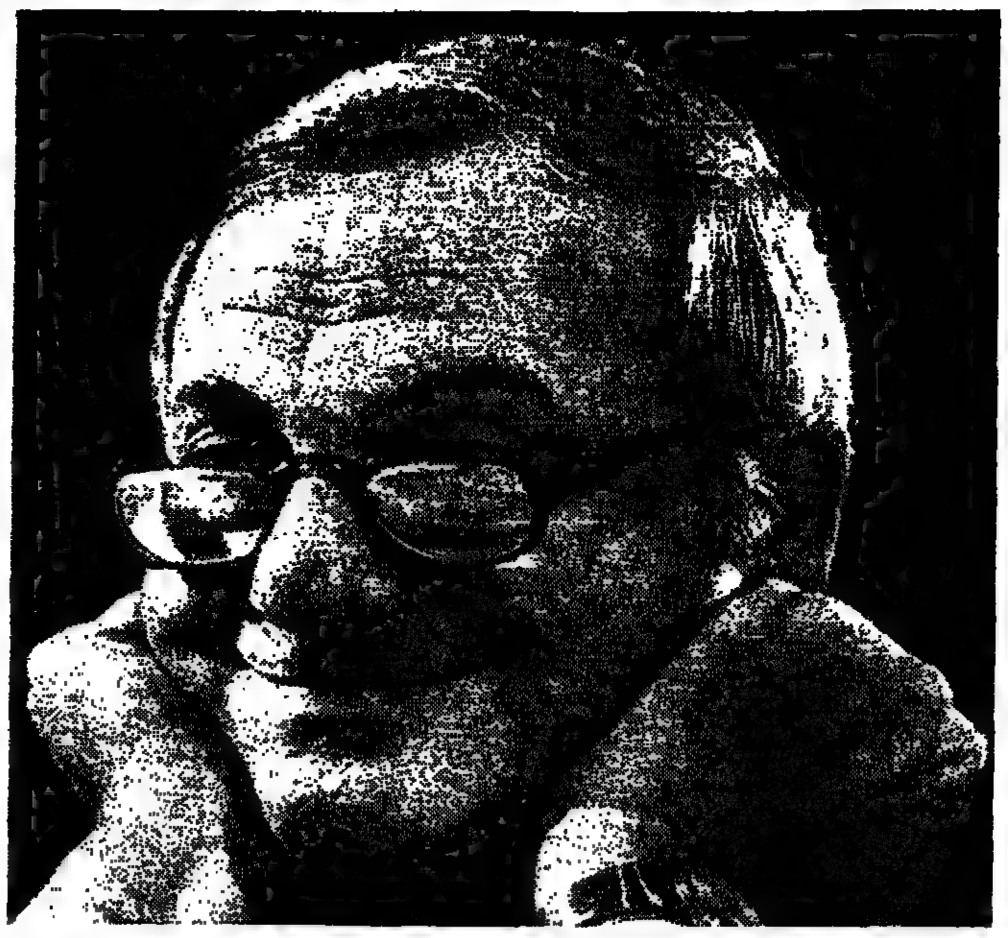
The deal made him the company's biggest single shareholder and a wary Chrysler quickly responded by strengthening its "poison pill" defences against a takeover.

Mr Kerkorian's investment is puzzling in two respects. First, it seems a curious departure from his normal line of operations, which have tended to be at the more glitzy end of the services sector.

Admittedly, his first business, which he set up in the Depression, involved buying and selling used cars, but he quickly turned to trading aircraft – one of his passions is flying – and eventually built up his own independent carrier before moving on to entertainment, hotels and gambling, through MGM, in the late 1960s.

The second reason for Wall Street's surprise is that Chrysler's problems would seem to make it a most unpromising candidate for large speculative gains – at least in the near term.

So far, Mr Kerkorian has given next to nothing away. In a statement on Friday he said his stake was for "investment." Chrysler, for its part, revealed that Mr Lee Iacocca, its feisty chairman and the man who rescued the company from near bankruptcy a decade ago, had sought and obtained a meeting with Mr Kerkorian on December 7.



Lee Iacocca, rescurer of Chrysler ten years ago, now faces a new challenge

And at this gathering in New York City the consummate Californian trader was reported [by Chrysler] to have told the consummate Detriot marketing man that he considered himself a passive investor, supported management and thought the company's shares were undervalued.

The most plausible explanation for Mr Kerkorian's behaviour is that he thinks a takeover bid for Chrysler may be in the offing, or that his action will somehow put it into play, or that he can sell the parcel on at a higher price to another interested party. But none of these outcomes seem all that likely.

Chrysler, it is true, has just been involved in year-long takeover talks with Fiat of Italy, and it is possible that Mr Kerkorian built up a stake of less than 5 per cent (the level at which purchases must be disclosed) some months ago in the hope that this deal would go ahead.

But the Fiat marriage never made it to the altar, for reasons which help explain why, on fundamental investment grounds, a stake in Chrysler seems unlikely to prove very exiting over the next few years.

In breaking off their secret engagement in early November, both companies cited the deteriorating world economic outlook – which is slowing car sales in Europe and creating deep gloom among US automobile manufacturers.

The Americans are bracing themselves for a sharp drop in demand as the economy slips into recession – and this at a time when a build-up of Japanese plants in the US has created an excess of manufacturing supply over consumer demand.

The result: fierce price cutting, particularly by Detriot's Big Three manufacturers, who have been battling to preserve market share against the extremely popular Japanese models.

All of the Big Three – General Motors, Chrysler and Ford – expect to go into the red in the final quarter of this year and the outlook for 1991 is little better.

Chrysler looks particularly vulnerable because it is much smaller than the other two, does not have their large and profitable European operations, and has suffered a particularly sharp drop in domestic car market share over the past two years, taking it down from near 11.5 per cent to about 9 per cent.

The loss of share is due partly to a withdrawal from the less profitable small car market, but also, say analysts, because the company's model range is old and unexciting. A new range – which could transform the outlook – is not due until late 1992 at the earliest and involves heavy capital expenditure.

And if all this were not sufficient to give a bidder pause for thought, the company is stuck with particularly large pension and health liabilities.

Still, the company is not in the desperate financial straits of a decade ago – in part because it has built up a $4bn cash pool, its highest liquidity level ever, to see it through the lean years.

Many analysts reckon that over the long term Chrysler will have to strengthen greatly its ties with another manufacturer or merge completely, but it is hard to see that happening in the present climate.

The company does have an 11 per cent stake in Mitsubishi and joint ventures with the Japanese company which are likely to be strengthened following the Fiat break-off. But a full Japanese bid seems highly unlikely, not least because of the political furore it would provoke.

So any potential for large capital gains from an investment in Chrysler looks quite a way off. The shares are certainly cheap, trading at around $12 against a book value of around $33. But it says a lot about the risks and liabilities facing one of the largest manufacturing companies in North America that someone can buy nearly 10 per cent of it for a mere $272m.

Chrysler's large dividend – which does not look too insecure and currently yields nearly 10 per cent – means that Mr Kerkorian will have little or no cost in carrying his stake.

But the septuagenarian investor may need a great deal of patience for more exciting returns – unless, of course, he knows something Wall Street doesn't.

COMPANIES AND FINANCE

Moulinex ready to proceed with Krups takeover

By William Dawkins in Paris

MOULINEX, the French maker of kitchen equipment, is to go ahead with the takeover of Krups, the German household appliance group, following the resolution of a boardroom row over whether to proceed.

The argument was settled when Mr Jean Mantelet, Moulinex's 90-year-old founder who has been in semi-retirement for the past two years, conferred his post as group president to Mr Roland Darneau, who was already managing director and favoured the deal. Mr Gilbert Torelli, formerly commercial director, now becomes managing director.

The move puts an end to the opposition mounted by Mr Michel Vannoorenberghe, Moulinex's former finance director and holder of a significant minority share stake, who had tried to block the deal on the grounds that the group was too heavily in debt to afford it.

Moulinex, which announced it was negotiating with Krups last month, said details of the takeover would be announced shortly, once the deal had been signed.

The French company's debts have risen to around FFr500m ($51.2m) due to its £18.2m ($34.6m) acquisition last year of Swan Housewares, a British producer of kettles and toasters, and Germi, an Italian maker of kitchen blenders. Last March, Mr Mantelet sold control of Moulinex to its management and staff to pave the way for his succession. The French group recorded a FFr5.1bn turnover last year, while Krups' sales were DM516m ($349m).

Moulinex argues that it needs a production base in Germany, already its biggest foreign market, to help sell into eastern Europe. Krups' products are broadly complementary to those of Moulinex, according to company officials. The German company is best known for its coffee machines and hair dryers, while Moulinex specialises in microwave ovens and kitchen appliances. Krups is also active in the US, while Moulinex is not well known outside Europe.

Sharp profit falls at two HK companies

By John Elliott in Hong Kong

TWO BIG Hong Kong companies have reported steep falls in half-year profits. The declines reflect growing pressure from world economic trends and Hong Kong's problems of high labour costs and falling consumer confidence.

Winsor Industrial, one of the colony's largest textile and garment manufacturers, announced a 28.3 per cent decline to HK$117.5m (US$15.1m) in profits attributable to shareholders for the half-year ended September 30. This included a 37.7 per cent plunge to HK$93.05m in the operating profits of its core textile and clothing activities.

Dickson Concepts, a leading wholesaler and retailer of big-name designer label luxury goods, announced a 19.5 per cent drop in net profits to HK$111.26m for the same period. This ended 10 years of rocketing growth for the company, which is 51 per cent owned by its 34-year-old founder, Mr Dickson Poon.

Mr T. K. Ann, Winsor chairman, partly blamed the drop in profits on a "rampant rise in production costs". This meant that "the merits of Hong Kong as a manufacturing centre are ebbing day by day".

Winsor manufactures most of its textile and garment products in Hong Kong and the nearby Portuguese enclave of Macan, but has recently moved some of its spinning and weaving operations to Malaysia to cut costs.

Its profits have been falling since the first half of 1987, when the net figure was HK$233.4m.

Its half-year turnover was 15.26 per cent down, from HK$1.3bn to HK$1.1bn. It is recommending an interim dividend of 20 cents, the same as this time last year.

Dickson reported turnover up from HK$962.32m in the first half of last year to HK$1.06bn.

Sociéte Générale in Shanghai joint venture

By John Elliott

SOCIETE Générale of France has linked with two Chinese institutions to form a financial services joint venture in Shanghai. Called Associated Finance Shanghai, it is expected to start operations by the middle of next year with registered capital of US$20m.

This is the first such joint venture by a western bank outside China's special economic zones since the late 1940s, when foreign banks and other companies left the country after the Communist takeover.

Another joint venture, Shanghai International Finance Company, is also being finalised. It involves Asian institutions which each have 25 per cent stakes. They are the Sanwa Bank of Japan, the Bank of East Asia from Hong Kong, the Bank of China and China's Bank of Communications.

Société Générale is taking a 50 per cent stake in – and will manage – Associated Finance. This is because the other foreign partner, the Bank of Tokyo, was rejected by Peking after it opened a branch in Taiwan in August. If a replacement is found, Société Générale will hand over half its stake.

The two Chinese partners, each with 25 per cent, are the Shanghai branch of the Construction Bank of China and the Shanghai Investment and Trust Corporation.

Société Générale said yesterday it would develop merchant banking activities aimed at providing financial packages for industrial and other projects in China, including Shanghai's new Pudong development area.

Support from the Chinese government is further proof of its open door policy. It is also significant because it reflects Peking's interest in re-developing Shanghai, which is opening a stock exchange next week, into a financial centre.

James Capel to cut bonds staff

JAMES Capel, the stockbroking unit of the Hongkong and Shanghai Banking Corporation, is to stop trading bonds in France for institutional clients in order to focus on the French equity and options markets, Reuter reports from Paris.

James Capel said the move would cut about 40 jobs but added "it will affect a number of people well below that".

"Some will leave through early retirement and some will be offered transfers elsewhere within the group," it said. A series of French brokers have laid off staff recently due to a trading slowdown.

Casino to sell petrol outlets

By George Graham in Paris

CASINO, the French supermarkets group, is selling its petrol stations to Shell for FFr660m ($132m), the UK oil major, and Agip, the Italian state-controlled oil group.

Shell will take control of 90 petrol stations attached to Casino supermarkets and hypermarkets in southern France, while Agip will take over 82 stations, mostly in eastern France.

The deal marks a big shift in the French petrol market, where the big retailing chains have won a third of the market away from traditional oil company petrol stations by aggressive price discounting.

Casino, which will continue to manage the petrol pumps for Shell and Agip, said it did not make money on the business and had concluded that the market was going to shift to more sophisticated fuels.

"We are convinced that we are moving in this sector towards higher added value products, and no-one is better placed than the international oil companies to provide these," said Mr Georges Plassat, head of Casino's retailing activities.

France currently consumes only 40 per cent lead-free petrol, while the international average is 75 per cent. Lead-free petrols have only recently been launched on the market and are expected to develop dramatically in the next few years.

Mr Henri Pradier, chairman of Shell France, said his company was investing around FFr1bn a year in refining capacity for these more sophisticated products, and it was necessary to assure outlets for this new production.

The deal will propel Shell into third place in the French petrol distribution market, with a share of over 9 per cent, behind the two French oil majors Elf and Total but just ahead of the two leading retailing chains, Intermarché and Leclerc.

Agip, which began to penetrate the French market much later, will reach a market share of nearly 2 per cent after the deal.

The deal will allow Casino to reduce its debt, at FFr4.2bn since its acquisition earlier this year of the La Ruche Méridionale supermarket company.

Mr Plassat said the group's sales in the first 11 months of this year were FFr41bn, up 31 per cent from a year ago.

Dutch newspaper for sale

By Ronald van de Krol in Amsterdam

THE Netherlands' only financial daily newspaper, Het Financieele Dagblad, is to be sold by its owner, Mr Hendrik Sijthoff.

In a story on the front page of its Saturday edition, the newspaper said Mr Sijthoff wanted to dispose of the publication in a way that would ensure its continued editorial independence.

The newspaper has a circulation of 40,000 and a staff of 140. It is estimated to be worth at least Fl 100m ($60.2m), depending on the conditions attached to its sale.

On Mr Sijthoff's instructions, Pierson, Heldring & Pierson, the Amsterdam-based merchant bank, has begun to negotiate with the paper's staff to clear the way for talks with potential buyers. Under the paper's complicated ownership structure, the staff has a virtual veto on the transfer of shares from Mr Sijthoff to a new owner.

Efforts to sell will be complicated by an unsettled legal suit and a multi-million guilder claim brought against the paper by the agency which formerly handled its advertising acquisition.

As the only leading Dutch newspaper not yet owned by a big publishing group, Het Financieele Dagblad is expected to attract interest from publishing companies and investment groups at home and abroad. A buy-out by management and staff is also possible.

Denison names new president

DENISON Mines, the struggling Toronto-based mining and energy group, has named one of Canada's best-known mining personalities, Mr Bill James, as its president and chief executive, writes Bernard Simon in Toronto.

Mr James, 61, who is famous for his directness, was at the helm of Falconbridge until the nickel producer was taken over by Noranda and the Swedish group, Trelleborg, last year.

Mrs Helen Roman-Barber, daughter of the company's founder, Mr Stephen Roman, was previously chief executive. Mrs Roman-Barber, whose family-controlled company has a 38 per cent stake in Denison, remains chairman. Denison's former president, Mr Jake Fowler, is retiring.

Disney drops Muppets deal

By Patrick Harverson in New York

WALT Disney has abandoned plans to acquire Henson Associates, the company behind the popular Muppets characters.

The talks ended late last week with the two sides unable to agree terms on a deal that analysts estimated would have been worth between $100m and $150m. Disney and Henson had been negotiating the acquisition for almost eighteen months.

The death in May of Mr Jim Henson, founder of Henson Associates and the instigator of the deal, sparked disagreements between Disney and Mr Henson's five children, who took over the business from their father.

It is believed Disney argued Henson Associates was worth less after its founder's death, because he had been the creative force behind all its successful characters. Mr Henson's children were thought to have been demanding a higher price. The deal, announced in August 1989, envisaged Disney acquiring publishing and licensing rights to all Muppets characters, except those created for the "Sesame Street" television programme.

Brazil may close state ship line

PRESIDENT Fernando Collor de Mello of Brazil is considering the closure of Lloyd Brasileiro, the ailing state-owned maritime transportation company, writes Victoria Griffith in Sao Paulo.

The move reinforces the perception that the new administration is not prepared to lend any financial assistance to Brazil's troubled state enterprises.

One of the country's most respected newspapers, Jornal do Brasil, reported that the president had already made the decision to shut down the company.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Interest rate doubts hurt short end

THE SHARP rise in prices in the past month on the gilt-edged securities market showed signs of coming to an end last week.

The market ran out of steam as investors took profits, uncertain about the likely pattern of interest rate cuts over the next few months.

There were muted gains last week for long-duration bonds, where yields declined marginally, indicating a price increase.

At the short end of the yield curve, however, prices declined as the market recognised that Britain's high 14 per cent base rate may – against the expectations of two weeks ago – stay for a while.

On Friday night, the benchmark 9 per cent Treasury bond maturing in 2008 was quoted at 90⅝, only slightly higher than the previous week.

Much of the uncertainty in the gilt market was due to worries about the likely pattern of interest-rate cuts next year. A mass of economic data has appeared in the past few days to support the view that Britain is in danger of a deep recession.

The indicators – including a large jump in unemployment, sharply declining lack of confidence in the retail sector, and a 3 per cent year-on-year decline in manufacturing output – have underlined the damage that could be done to industrial prospects should Mr Norman Lamont, the chancellor, fail to ease borrowing conditions soon.

But Mr Lamont is constrained by the weak position of sterling in the European exchange rate mechanism. Any early cut in rates could make sterling less attractive to overseas investors, pushing the pound perilously close to its effective ERM floor.

Mr Lamont must therefore feel a bit like a rabbit caught out on a motorway. Should he sit tight, or make a dash for safety, possibly running into more danger?

Opinion in financial markets is increasingly that Mr Lamont will choose the former option. By sitting out the next few weeks, he can demonstrate his willingness to take a long view in relation to the British economy, allowing interest rates to fall only at a gradual rate.

One piece of good news for the government on Friday was that the annual rate of retail-price inflation fell below 10 per cent in the first monthly drop for three years. The decline of 1.2 per cent, from 10.9 per cent in October to 9.7 per cent in November, was the biggest since April 1986.

One part of Mr Lamont's plan may be that, by keeping interest rates high over the next few months, further reductions in inflation will come relatively quickly – in which case the scope for a more significant easing in borrowing conditions later in the year would be increased.

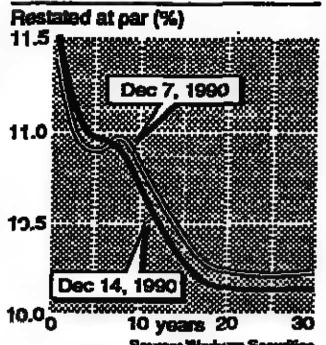
Against this argument is that at some point soon – assuming that sterling fails to climb markedly in the next month – Mr Lamont may be forced to chance his arm with an interest rate cut of perhaps half a percentage point and gamble that the foreign exchange markets will not mark sterling down as a result.

For the time being, the gilt market cannot make up its mind about the strength of Mr Lamont's resolve.

Peter Marsh

UK gilts yields

Restated at par (%)



Source: Warburg Securities

IRISH BONDS

Low inflation fosters continental links

INFLATION in Ireland is running at an annual rate of 2.7 per cent – the lowest rate in Europe – according to retail price figures for November, released last week.

The figure is in stark contrast to the 9.7 per cent rate in the UK and underlines the divergence between the two countries' economic performance.

The difference between the two economies has broken the historic ties between the performance of the Irish government bond market and UK gilts.

New relationships with continental European markets are now more important and international investors are increasingly attracted to the small Irish gilts sector.

In addition to the rosy inflation outlook, the Irish economy is running a balance of payments surplus equivalent to 2 per cent of gross national product and the government has a small current account surplus.

By other measures, the economy is less healthy. Bond investors, however, like to see unemployment running at over 15 per cent; there is little chance of economic over-heating.

According to market analysts, the key relationship is now between the Irish and French government bond markets.

Fund managers track the relative performance of the French and Irish markets and switch funds between the two.

This placed the market under considerable pressure for the first half of the year, as French government paper performed better than any rival.

At the 10-year maturity, the benchmark for most European government bond markets, the yield spread between Irish gilts and French treasuries widened to 120 basis points by the summer.

However, Irish gilts now offer a yield pick-up of just 20 basis points over the French bonds. This turn-around reflects both the massive correction that took place in French bonds in the wake of the Gulf crisis and the recent strength of Irish gilts.

Like most other European government bond markets, the Irish gilts market has suffered something of a roller-coaster ride over the past 12 months. Moreover, the relatively small size of the market – just I£12.5bn in total – has accentuated both rises and falls.

Iraq's invasion of Kuwait sent Irish gilt yields spiralling up. At the long end of the curve, the yield on the benchmark 8½ per cent gilt maturing 2010 stood at 8.98 per cent before the Gulf crisis but widened out to a high of 10.10 per cent in the immediate aftermath of the invasion.

Throughout the autumn, prices have staged a strong recovery.

The benchmark long-dated gilt now stands at a yield of 9.21 per cent. The yield curve remains sharply inverted, with six-year government paper yielding 10.5 per cent. Supply of new Irish gilts is liable to be limited during 1991. This year the government has been very active at the shorter maturities, accumulating I£750m in excess of its funding requirement.

The total government funding requirement for next year is likely to be only around I£500m, so there is little prospect of fresh issuance.

The fundamental economic outlook remains encouraging for Irish gilts. Under government incomes policy, wage inflation has been running at around 2.5 per cent over the last three years.

The agreements are now being renegotiated, but a favourable outcome could see the Irish gilts market entering 1991 in a positive mood.

Simon London

US MONEY AND CREDIT

Treasuries rally runs out of steam

MR ALAN Greenspan, chairman of the Federal Reserve, will be centre stage this week as fixed income investors look to Washington to see if the Fed's Open Market Committee (FOMC) judges the deepening US recession sufficiently worrying to ease US interest rates further.

The bond market feels the lowering 10 days ago of the Fed funds rate was a step in the right direction, but not a big enough one. Economists, meanwhile, are now forecasting a fourth-quarter slump in GNP of as much as 4 per cent, having digested Friday's news that US industrial production tumbled by 1.7 per cent in November – the sharpest drop since the 1982 recession.

But Mr Greenspan is cautious, and is well-known for his reluctance to ease monetary policy unless he is satisfied that the demon of inflation has been exorcised from the US economy. Hence the curious current situation – in which there is persuasive evidence almost every day that Mr Greenspan's "meaningful downturn" is becoming a deep recession but there is continuing uncertainty as to whether the Fed will move to further ease rates because last Friday's producer price index (PPI) may have rekindled inflation fears.

The PPI figures for November showed a 0.5 per cent rise in the "core" index, which excludes food and energy. And even though the overall PPI data represented a slowing of inflation after three months of oil price-driven increases, the rate was still above expectations.

Many economists believe the PPI numbers to be lagging behind the US business cycle, but the market, clearly nervous abut Mr Greenspan's intentions, lost heart toward the end of last week. The two-month rally in Treasury paper ran out of steam, with the benchmark 30-year 8.75 per cent bond being marked down by a solid ⅝ on Friday.

The strong recession-induced rally in Treasury paper – which has seen a 10 per cent jump in the price of the benchmark long bond (and a drop of 89 basis points in the yield) in eight weeks – has thus ended for the time being.

Added to the inflation concern, whether it is spurious or not, are other factors that have dampened the market's enthusiasm. One was good old-fashioned profit-taking and the other was renewed concern about the prospect of a Gulf war (and, with it, the prospect of a new inflationary hike from crude prices) as president Bush toughened his attitude toward Saddam Hussain.

The view at Salomon Brothers was, nonetheless, that investor wariness represented a consolidation phase rather than a decisive end to the bull market. Fundamentals still argue for lower bond yields and a cut in the discount rate from its present level of 7 per cent.

The problem for market players, who are in any case busy with Christmas parties and the closing of books, is that Mr Greenspan has been more inscrutable than ever in recent days.

For many on Wall Street, the Fed's behaviour has been downright exasperating. Ten days ago the Fed added reserves to signal a nudging of the Fund's rate down to 7.25 per cent. The market tried to send the signal back to Washington as the rate was pushed even lower. But last Tuesday the Fed executed overnight matched sales to hold the rate up, a clear response to the market. Then, last Wednesday the Fed turned around and added reserves, pushing the Fed fund's rate down again.

Mr Robert Brusca, chief economist at Nikko Securities, spoke for many in the market on Friday when he pooh-pooed the Fed's inflation fears by noting that, in times of recession, inflationary pressures tend to dissipate rather than rise.

Mr Brusca first complained about the "lack of leadership" and then lobbed a verbal hand grenade at Mr Greenspan. "The Federal Reserve," he opined, "appears to be totally confused in its policies or engaged in the most amazing episode of fine tuning since the Fed chairmanship of G. William Miller."

Mr Greenspan's determination to assure himself about the inflation trend before easing rates further may be sincere, but Mr Brusca is right. The Fed's fine tuning in recent days implies more uncertainty than consistency in US monetary policy.

The net result of all this may be something of a policy stalemate at the Fed, with only a 50 per cent chance that the Fed will ease again before Christmas. It could be a tense week for the markets.

Alan Friedman

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (eol. weekly av)	7.19	7.06	7.56	9.92	7.06
Three-month Treasury bills	7.06	7.10	7.30	9.11	7.06
Six-month Treasury bills	7.07	7.09	7.37	9.37	7.07
Three-month prime CDs	7.80	7.65	7.96	10.35	7.65
30-day Commercial Paper	7.75	7.70	7.82	9.95	7.70
90-day Commercial Paper	7.50	7.50	7.82	10.05	7.50

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk ago
Seven-year Treasury	104[illegible]	[illegible]	7.95	7.94	8.17
20-year Treasury	110[illegible]	[illegible]	[illegible]	8.19	8.48
30-year Treasury	106[illegible]	[illegible]	8.18	8.18	8.45

In the week ended December 3, M1 fell by $6.6bn to $819.0bn.

FT/AIBD INTERNATIONAL BOND SERVICE

	Issued	Bid price	Chg on week	Yield
U.S. DOLLAR STRAIGHTS				
ABBEY NATIONAL 8 7/8 93	150	100⅜	[illegible]	[illegible]
ABN 9 1/8 94	200	101⅛	[illegible]	[illegible]
AETNA LIFE & CAS 7 3/4 16	[illegible]	97¼	[illegible]	7.95
ALBERTA PROVINCE 8 5/8 96	[illegible]	[illegible]	[illegible]	[illegible]
ALBERTA PROVINCE 9 3/8 95	[illegible]	[illegible]	[illegible]	[illegible]
AMERICAN EXPRESS 0 00	[illegible]	[illegible]	[illegible]	[illegible]
AMERICAN GENERAL 9 3/4 95	[illegible]	[illegible]	[illegible]	[illegible]
ANHEUSER-BUSCH 9 1/8 92	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SARA LEE 9 3/8 93	150	100⅞	[illegible]	8.96
SAS 10 99	200	101⅝	[illegible]	9.78
SAS 10 1/8 95	150	102⅞	[illegible]	9.37

	Issued	Bid price	Chg on week	Yield
SASKATCHEWAN 15 92	150	109⅜	[illegible]	8.49
SBAB 9 1/2 95	500	103⅛	[illegible]	8.60
SEAGRAM CO 8 1/2 96	100	96	[illegible]	9.47
SEARS O/S FIN 0 98	[illegible]	[illegible]	[illegible]	10.52
SEARS O/S FIN 11 5/8 93	[illegible]	104	[illegible]	9.91
SKANDIA INTL 7 1/4 92	[illegible]	[illegible]	[illegible]	[illegible]
SNCF 7 1/4 94	[illegible]	[illegible]	[illegible]	[illegible]
SNCF 9 1/2 98	[illegible]	104	[illegible]	[illegible]
STATE BK STH AUST 9 1/4 95	[illegible]	101¼	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WORLD BANK 0 15	2000	15⅜	[illegible]	7.77
WORLD BANK 5 3/4 96	300	86½	[illegible]	9.08
WORLD BANK 7 1/8 95	500	94	[illegible]	8.95

	Issued	Bid price	Chg on week	Yield
SWISS FRANC STRAIGHTS				
ASIAN DEV BANK 6 10	100	[illegible]	+1	[illegible]
AUSTRIA 4 5/8 98	100	[illegible]	[illegible]	[illegible]
CHUJITSUYA 7 3/4 95	[illegible]	101½	[illegible]	[illegible]
COUNCIL EUROPE 4 3/4 98	[illegible]	[illegible]	[illegible]	[illegible]
EEC 5 1/2 00	[illegible]	[illegible]	[illegible]	[illegible]
EIB 5 3/4 93	100	97	[illegible]	[illegible]
FINLAND 5 3/8 95	[illegible]	[illegible]	[illegible]	[illegible]
GENERAL MOTORS 7 1/2 95	[illegible]	100⅛	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOYOTA MOTOR	[illegible]	[illegible]	[illegible]	[illegible]
UNITIKA	[illegible]	[illegible]	[illegible]	67.44
YAMANOUCHI PHARM	[illegible]	[illegible]	[illegible]	45.73

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on December 14

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Euro-French franc sector outgrows old retail image

THE FRENCH franc sector of the Eurobond market has evolved into an actively traded international market this year, shrugging off its image as a quiet haven for French retail investors.

"Foreign investors buy the most liquid part of the market – government bonds – first. Now they are familiar with the interest rate and currency implications of the French market, they have started to buy spread (paper which yields a margin above government bonds)," one French banker observed.

The development of the market has been boosted by the surge in new issue volume, the strong performance of the French government bond market and growing international confidence in the French currency. In addition, analysts said a more aggressive stance on marketing and trading by the French banks had paid off.

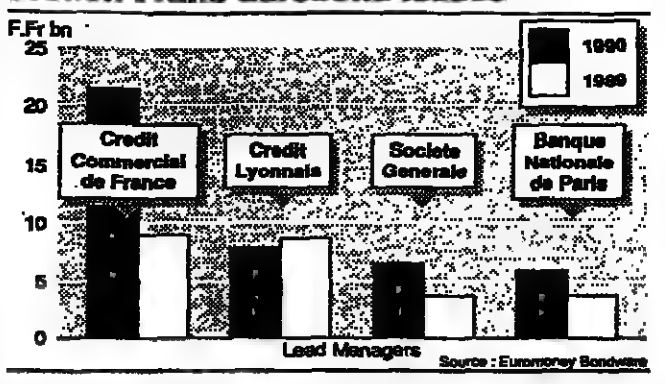
The volume of new issues so far this year stands at just under FFr50bn, up from FFr29bn in 1989. The growth in overall volume has been matched by an increase in average issue size and a trend of launching additional tranches which can be traded interchangeably with older issues. There are now three issues of FFr3bn or more.

"[The French Treasuries market] has been widely spread for several years. The problem we had [in the Euro-French franc sector] was not lack of demand but lack of issuers," said Mr Christian d'Allest, syndicate manager of Société Générale.

A watershed for the market was last month's FFr3bn deal for the Kingdom of Spain, the largest single amount ever launched. The psychological impact of the deal was all the stronger because Spain was known to have been looking at the Ecu bond market. Spain's choice of the French market and the success of its deal, attracted institutional investors who previously eschewed the sector. The eight-year issue went secondary last week, and will be among the handful of benchmark issues which can be traded in large size.

So the boom in the primary market is starting to feed through into the secondary market. International institutions will only buy bonds which can be sold quickly and in large tickets. The benchmark issues are regularly traded in FFr50m blocks. Banks charge a spread between bid and offer (buy and sell) prices of 30 basis points on these benchmark issues, a margin which has narrowed from about 50 basis points a year ago.

French Franc Eurobond issues



Source: Euromoney Bondware

In the primary market, a handful of issues have been launched using the fixed price re-offer technique, which only works if distribution is institutional. Like the Ecu sector, a two-tier market – for institutional and retail issues – has developed.

Underpinning the growth in international demand are strong economic fundamentals. The French government's "franc fort" policy has helped the franc hold up well against the dollar and the yen this year. French and German inflation are expected to converge next year. Even though the spread of 120 basis points between French and German markets is historically quite tight, this economic outlook suggests it could narrow further. The yield differential between Ecu and French franc bonds issued by the French treasury has been eroded from 40 basis points in July, according to Ms Esther Baroudy, a Crédit Lyonnais analyst.

These are the fundamental concerns of international investors, who buy French franc Eurobonds as a higher-yielding alternative to government bonds. Many only became active in the government bond market a couple of years ago, largely as a result of the efforts of the French authorities to boost international participation. The will to create a broad international market was also visible in the treasury's recent decision to allow non-French banks to lead manage Eurobond issues. J. P. Morgan scooped this first last week, with a FFr500m deal for Compagnie Bancaire, but others are expected to follow.

Nevertheless, the way forward for the French franc Eurobond market will not be smooth. Again, the problem is likely to be a lack of issuers.

The supply of state-sector borrowers may abate next year, if plans afoot at the treasury to reduce the number of state guarantees go ahead.

Even if there is no significant decline in issues by the likes of Electricité de France and Société Nationale des Chemins de Fer Français, which would not be severely hampered by the loss of the state guarantee, the market still needs to attract more international borrowers, especially sovereigns and supranationals.

However, many of these borrowers do not have a natural requirement for French francs, and the swap market does not provide attractive opportunities for borrowers to swap proceeds raised in the French market into other currencies.

The market for interest rate swaps – from fixed-rate to floating-rate French francs – is quite active, having grown to service France's sizeable domestic corporate bond market. But the market has never been able to offer issuers more than a small margin below the Paris Interbank Offered Rate (Pibor), the floating-rate measure used for most swaps.

The currency swap market has rarely provided swap windows for new issues.

Some analysts say the increasing correlation between European currencies in the exchange rate mechanism will encourage more borrowers to keep funds in French francs. For borrowers in European countries with higher interest rates, the risk is minimal and the benefits attractive. Others point to the deterioration of arbitrage opportunities in other bond markets. "If other markets get much worse, ours will start to be relatively competitive, but there's not much hope of movement in the other direction," one banker said.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Nichiei Co.♦◆	150	1994	4	$4\frac{1}{2}$	100	Yamaichi Int.	4.500
Nippon Syn.Chemical♦◆	100	1994	4	$4\frac{1}{2}$	100	Yamaichi Int.	4.500
Nippon Soda Co.(e)♦◆	90	1994	4	$4\frac{7}{8}$	100	Nikko Secs.	4.875
Ohbayashi Corp(g)♦◆	400	1994	4	$4\frac{1}{2}$	100	Nomura Int.	4.500
Kaken Pharmaceutical♦	100	1994	4	$4\frac{1}{2}$	100	Yamaichi Int.	4.500
KOP◆	40	1991	1	zero	94.518	Mitsui Taiyo Kobe	5.802
Nippon Koshua Steel(f)♦◆	80	1994	4	5	100	Yamaichi Int.	5.000
IADB◆	300	1995	5	$8\frac{1}{2}$	$99\frac{7}{8}$	J.P.Morgan Secs.	8.407
Tokyu Dept.Store Co.♦◆	350	1994	4	$4\frac{1}{2}$	100	Nomura Int.	4.500
SwedBank◆	120	1991	1	zero	93.677	Sanwa Int.	6.750
Sidek Int.(m)★★◆	50	1995	5	12	92.978	Kidder Peabody Int.	14.490
Mitsubishi Motors♦◆	400	1994	4	$4\frac{1}{2}$	100	Nikko Secs.	4.500
Dowa Mining Co.♦◆	120	1994	4	$4\frac{1}{2}$	100	Nikko Secs.	4.500
MBL Fin.(Curacao)(q)◆	500	2001	10	$8\frac{7}{8}$	100	Mitsubishi Fin.Int.	8.875
Tytan Secs.(k)★★†◆	60	1995	(k)	(k)	100	Citicorp Inv.Bk	-
Freedom Fin.II BV(r)†◆	125	1999	6.167	(r)	100.30	IBJ Int.	-
CANADIAN DOLLARS							
Royal Bk of Canada◆	100	1992	2	$11\frac{1}{4}$	101.15	RBC Dominion Secs.	10.582
JVC◆	75	1994	3	$11\frac{1}{2}$	$101\frac{3}{8}$	Hambros	10.938
AUSTRALIAN DOLLARS							
Toyota Finance (Aus.)◆	75	1994	3	13	101.82	Hambros Bk	12.320
D-MARKS							
IADB◆	300	2000	10	9	$101\frac{1}{4}$	Deutsche Bk	8.731
EIB(b)◆	300	1997	7	9	$102\frac{1}{4}$	Deutsche Bk	8.560
Snow Brand Foods(d)♦◆	60	1994	4	$5\frac{1}{8}$	100	Commerzbank	5.125
Misawa Homes Co.(j)♦◆	90	1995	4	$5\frac{1}{8}$	100	Nomura Bk GmbH	5.125
SWISS FRANCS							
IADB◆	150	2001	-	$7\frac{5}{8}$	$101\frac{1}{4}$	Credit Suisse	7.372
Gunze Sangyo Inc.(i)★★§	100	1995	-	6	100	Swiss Volksbank	5.991
Kawasaki Electric(n)★★§	80	1996	-	$6\frac{1}{8}$	100	Banca Del Gottardo	6.125
Oliver Corp★★§	40	1995	-	$6\frac{1}{4}$	100	Nomura Bk (Switz)	6.250
City of Turku★★◆	40	1998	-	$7\frac{3}{4}$	$101\frac{1}{4}$	Nordfinanz Bk	7.514
FRENCH FRANCS							
CEPME(h)◆	1bn	1995	$4\frac{1}{2}$	10	98.70	Credit Lyonnais	10.340
Credit Local de France(p)◆	1bn	1999	8	$9\frac{3}{4}$	$99\frac{1}{2}$	JP Morgan Secs.	9.843
Compagnie Bancaire◆	500	1996	5	$10\frac{1}{2}$	101.67	Paribas Cap.Mkts.	10.057
YEN							
Abbey Nat.Treas.Serv.(a)◆	20bn	1994	4	8	$101\frac{5}{8}$	BTI	7.515
Nagase Fin.Europe BV◆	13bn	1995	$4\frac{3}{4}$	$7\frac{1}{2}$	$101\frac{7}{8}$	Daiwa Europe	7.010
Flash Series O(c)†◆	2.7bn	1993	$2\frac{3}{4}$	(c)	100.10	Sanwa Int.	-
Mitsui Real Est. Dev.(l)†◆	50bn	1998	$7\frac{1}{4}$	(l)	101.37	Yamaichi Int.	-
Bank of Canada◆	20bn	1993	3	8	$101\frac{3}{8}$	Bankers Trust Int.	7.472
IMI Bank Int.(o)◆	10bn	1993	3	8	$101\frac{3}{8}$	BTI	7.472
LUXEMBOURG FRANCS							
Codama Hlgs.★★◆	300	1994	3	$10\frac{1}{4}$	$101\frac{1}{4}$	BIL	9.552
Cregem Finance★★◆	500	1994	3	10	$101\frac{1}{4}$	Cregem Int.	9.305
Credit Agricole★★◆	300	1994	3	$10\frac{1}{8}$	102	Cregem Int.	9.350

★★Private placement. §Convertible. ♦With equity warrants. †Floating rate note. ◆Variable rate note. ◆Final terms. a) Nikkei-linked issue. Non-callable. b) Fungible with existing DM400mn deal, from December. Non-callable. c) Coupon pays 6-month Libor + 10bp. Non-callable. d) Exercise premium fixed at 2.5%. Non-callable. e) Exercise premium fixed at 2.57%. Non-callable. f) Exercise premium fixed at 2.66%. Non-callable. g) Exercise premium fixed at 2.5%. Non-callable. h) Fungible with existing FFr1bn deal, from January 1991. Non-callable. i) Put option 31/3/93 at $107\frac{1}{2}$% to yield 8.11%. j) Exercise premium fixed at 2.5%. Non-callable. k) Average life of 3 years. Coupon pays 6-month Libor + $1\frac{1}{8}$%. l) Fixed/FRN issue. Coupon pays 3-month Libor minus 30bp for first 3 months, then 6-month Libor minus 30bp for next 2 years, then pays 7.1% annually thereafter. Non-callable. m) Put option December 1992 at 96.6125%. Callable at 94.0827% December 1991, increasing annually to 98.1920% December 1994. Sinking fund from December 1993. n) Callable 9/1/93 at $101\frac{1}{2}$% declining $\frac{1}{4}$% semi-annually thereafter. o) Nikkei-linked redemption. Non-callable. p) Coupon receivable either in cash or in additional fungible Credit Local bonds issued at par. q) Callable on and after 10/1/96 at par. r) Backed by commercial loans made mainly in US. Callable after November 1993 at par. Coupon pays 3-month Libor + 75bp. Note: Yields are calculated on AIBD basis.

SYNDICATED LOANS

Oil groups exploit firm price of crude

OIL companies are taking advantage of the strength in the price of oil to secure financing needs that will take them through the next few years. Many US oil groups raised equity in the international market and several energy companies are talking to banks about an approach to the syndicated loans market.

In spite of a slightly ambivalent attitude by banks to the two most recent oil deals – Citicorp's £700m multi-option facility for the UK subsidiaries of France's Elf, and NatWest's £450m two-tranche deal for Total Oil Marine, a unit of the French petrochemicals group – the energy concerns are looking to lock in finance early in the New Year.

At least three leading oil companies are looking to secure funds by approaching the market through UK subsidiaries with activities in the North Sea. These will refinance existing operations in the industry and provide a tax advantage for a unit to approach the market directly, rather than securing funds through its parent.

But the deals are unlikely to carry the guarantee of the parent and will be judged on the basis of the subsidiary's cash-flow only. For this reason, banks may be looking for slightly higher returns than they would for a deal which carries the weight of the parent.

Added to this, the deals under consideration will run for 10 years in a market with a current appetite for short-term risk and it looks as though the pricing achieved by Total will be taken as a bottom limit. Other oil companies tapping the market will have to pay as much – if not more – than the 42.5 basis points over the London Interbank Offered Rate achieved by Total, which rose to 60 points over the life of the loan.

This is not cheap, but the energy companies may want to get into the market before the resolution of the Gulf crisis and resulting plunge in oil prices, which will cast a shadow over their credit outlook.

Citicorp relied on the strength of Elf's credit to bring a finely priced deal a couple of months ago, but this was quickly repriced and ended up being oversubscribed to the tune of £150m, showing there is an appetite for oil paper at the right price. Nevertheless, 17.5 basis points rising to 22.5 payment for an interest margin is still low in today's climate.

The size of the deals under consideration vary widely, from £800m to £300m, but companies are still only in exploratory discussions with banks and no announcements are expected before January.

Pricing in the loans market continues to rise, albeit more slowly than in recent weeks and some deals continue to face difficulties. A finely priced DKr750m multi-option facility for FLS Industries, a Danish industrial company, was withdrawn from the market last week by its arranger Unibank.

Market participants said the deal met with little interest because of the low interest margin, which was fixed at 25 basis points for the first year of the three-year facility, rising to 37.5 for the rest of its term.

The two loans for the electricity generators were finally signed last week, shifting the focus from electricity until the two Scottish power companies come to market in January. Scottish Power and Hydro Electric are expected to borrow around £500m each prior to their flotation in the middle of the year.

● Southdown Building Society, created by the merger of Sussex County and Eastbourne Mutual in October, has agreed a £50m sterling commercial paper programme.

Deborah Hargreaves

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	467.3	0.0	91.0	13,086.9
Prev	147.1	0.0	540.0	13,136.0
Other	3,378.8	0.0	1,294.9	10,434.6
Prev	2,298.1	0.0	169.4	6,474.5
Secondary Market				
US$	25,300.8	1,006.5	6,892.7	9,077.8
Prev	19,704.0	809.9	6,934.8	9,686.9
Other	28,590.9	1,071.3	8,484.6	53,948.9
Prev	26,251.9	1,258.2	7,532.9	60,841.0

	Cedel	Euroclear	Total
US$	24,952.1	30,990.9	55,943.0
Prev	22,358.8	28,589.9	50,948.7
Other	44,007.4	63,196.6	107,204.0
Prev	45,005.0	59,821.3	104,826.3

Week to December 13, 1990

Source: AIBD

WORLD STOCK MARKETS

CANADA

TORONTO
Closing prices December 14

MONTREAL
Closing prices December 14

INDICES

**Saturday December 8: Taiwan Weighted Price: 4745.46 Korea Comp Ex. 735.7
‡ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all Indices are 100 except Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 20 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday 14 December 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	29.2m	450	-10	NKK	14.4m	422	-6
M'bishi Shpbldg	24.7m	895	+14	Mazda Motor	11.9m	863	-12
Marubeni	18.4m	728	+4	M'bishi Heavy	11.8m	717	-13
Sumitomo Metal	17.1m	481	+3	C.Itoh	9.4m	734	-1
Mitsui & Co	15.8m	791	+32	K'saki Heavy	8.6m	865	0

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE:

OFFER PRICE:

BID PRICE:

CANCELLATION PRICE:

TIME:

HISTORIC PRICING:

FORWARD PRICING:

SCHEME PARTICULARS AND REPORTS:

FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,

Centre Point,

103 New Oxford Street, London WC1A 1QH

Tel: 071 - 379 - 0444.

FT MANAGED FUNDS SERVICE

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
TSB Unit Trusts (1200)H						
Charlton Pl Andover, Hants. SP10 1RE 0264 346794						
TSB American	6	106 28	107 01	113 83	0 74	41457
Do Accum	6	116 17	116.97	124 43	0.74	41458
TSB Brit Growth	6	64.72	65 64	69.82	3 92	41459
Do Accum	6	71.55	72 56	77 19	3.92	41460
TSB European	6	67.23	67.65	71.96	1.21	41461
Do Accum	6	69 67	70 11	74 58	1 21	41462
TSB Extra Income	6	141 09	144 23	153.43	6.07	41463
Do Accum	6	199.54	203 99	217 0	6 07	41464
TSB Smaller Cos	6	38 02	39.72	42.25	3 25	41465
Do Accum	6	39 87	41 65	44 3	3.25	41466
TSB General	6	199.24	199.24	211 95	4.18	41467
Do Accum	6	365 27	365.27	388 58	4 18	41468
TSB Premier Income	5	41 68	42.34	44 1	9.38	41469
Do Accum	5	73.28	74 44	77 54	9.38	41470
TSB Income	6	261 27	266.45xd	283 45	5 62	41471
Do Accum	6	485.72	495.35xd	526 96	5 62	41472
TSB Pacific	6	193 41	197 13	209 71	0.32	41473
Do Accum	6	201.25	205 11	218.2	0 32	41474
TSB International	6	331.12	331 12	352.25	1.57	41475
Do Accum	6	424 73	424 73	451 84	1.57	41476
TSB Nat Resources	6	53 12	54 34	57 8	1.32	41477
Do Accum	6	57 62	58.94	62 7	1.32	41478
TSB Sited Opps	6	69 48	71 13	75.66	3 81	41479
Do Accum	6	82.92	84 9	90 31	3 81	41480
Environmental Inv	6	40 61	41.33	43 96	2 68	46849
Do Accum	6	41.54	42 28	44.97	2 68	46850
TSB Selector	6	42.18	42.9xd	45 63	4 63	47660
Do Accum	6	43 47	44 2	47.02	4 63	47661
TSB High Income	6	45.54	46.12	49 06	6.42	44558
Do Accum	6	45.54	46.12	49 06	6 42	44559
TSB Intl Income	6	47 39	47.52	50 56	7 02	44560
Do Accum	6	47.35	47 52	50.55	7 02	44561
TSB Selector Income	6	45.11	45 6	48.51	6 8	44562
Do Accum	6	45 11	45 6	48.51	6.8	44563

Target Trust Mngrs Ltd (1600)F
Target Hse, Gatehouse Rd, Aylesbury, Bucks
Admin 0296 394000 Dealing 0296 312156
American Eagle ... 5 | 60.31 | 60.31xd | 64.35 | 1.20 | 41482

[illegible]

Templeton Unit Trust Managers Ltd (1200)F

[illegible]

Thornhill Unit Trust Mngrs Ltd (1200)F

[illegible]

Thorton Unit Managers Ltd (1000)F

[illegible]

Three Counties Asset Mngmt Ltd (1458)F

[illegible]

Timberlake Trust Mngrs Ltd (0900)F

[illegible]

Touche Remnant Unit Tst Mngt Ltd (1600)F

[illegible]

Trades Union Unit Tst Mngrs (1200)H

[illegible]

Triton Fd Mngrs. Ltd. (1000)H

[illegible]

UTAM Ltd (1500)F

[illegible]

United Charities Unit Trusts (1000)H

[illegible]

Wardley Unit Tst Mngrs Ltd (1300)F

[illegible]

Waverley Unit Tst Mngmt Ltd (1000)F

[illegible]

Wesse Asset Management (1530)F

[illegible]

Whittingdale Unit Tst Mgmt Ltd

[illegible]

Willbro Financial Services Ltd (0905)F

[illegible]

Wright Seligman Fund Mngrs Ltd (1700)F

[illegible]

The Yorkshire Unit Tst Mngrs Ltd (1100)F

[illegible]

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

James Capel Fund Managers Ltd

Cent. Bd. of Fin. of Church of England

Charinco/Charishare (1000)F

CAFINVEST-Charities Aid Foundation

COIF-Charities Official Inv Fd

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Robert Fleming Asset Mngmt Ltd

Funds in Court

Henderson Unit Trust Management Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

[illegible]

M & G Securities Ltd

MIM Ltd

Morgan Grenfell Unit Trust Managers Ltd

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

NM Rothschild Asset Management Ltd

J. Rothschild Fund Managers Ltd

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

Touche Remnant Unit Tst Mngt Ltd

[illegible]

INSURANCES

AA Friendly Society

Abbey Life Assurance Co Ltd

Albany Life Assurance Co Ltd

AEtna Life Insurance Co Ltd

Allied Dunbar Assurance Plc

Allied Dunbar Assurance Plc—Contd.

Ambassador Life Assce. Co Ltd

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assce. Co Ltd

Black Horse Life Ass. Co Ltd

Britannia Life Ltd

CCL Assurance Ltd

Canada Life Group

Cannon Assurance Ltd (z)

Canbury Life Plc

Citicorp British National

City of Westminster Assurance (z)

Clerical Medical/Fidelity Investments

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Insurance Co of America

Commercial Union Group

Cornhill Insurance PLC

Crown Financial Management Ltd

Crusader Insurance Plc

Eagle Star Insurance Co Ltd

Eagle Star Insur/Midland Assur.

Economic Insurance Company Ltd

Equitable Life Assurance Society

Equity & Law

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident (z)

General Portfolio Life Insur Plc

Generali (Assicurazioni GENERALI SpA)

Gresham Unit Assurance Ltd

Growth & Sec. Life Assur. Soc. Ltd

Guardian Royal Exchange

Guardian Royal Exchange—Contd.

Hearts of Oak Insurance Group

Henderson Administration(z)

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Intelife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General (Unit Assur) Ltd

Legal & General (Unit Pensions) Ltd

Liberty Life Assurance Co Ltd

The Life Association of Scotland

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

MGM Assurance

Manchester Unity Assurance

MoneyLife Group PLC

Merchant Investors Assurance Co Ltd

Merchant Investors Assurance Co Ltd - Contd.

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

[illegible]

Continued on next page

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N & P Life Assurance Ltd
6-7 Bedford Rd, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	Yield Gross	City-line
Life Managed Fd	91.7	96.6	–	41924
Pension Managed Fd	88.0	92.6	–	41926
Life Deposit Fd	102.8	108.2	–	41923
Pension Deposit Fd	106.1	111.7	–	41925

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Managed Cautionary	99.1	104.4	–	47150
Managed Growth	123.3	129.8	–	47151
Managed Opportunity	119.2	125.5	–	47152
NFMC Target Fiscal	88.5	93.2	–	47153
Pension Funds				
Managed Cautionary	104.6	110.2		47154
Managed Growth	124.4	131	–	47155
Managed Opportunity	117.8	124.1	–	47156
NFMC Target Pension	134.8	141.9	–	47157

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	Yield Gross	City-line
Unit Pension Funds				
Managed	141.7	149.2	–	43141
UK Equity	146.7	154.5	–	43135
Overseas Equity	113.9	119.9	–	43136
Fixed Interest	135.2	142.4	–	43137
Property	127.1	133.8	–	43138
Index Linked	144.4	152.1	–	43139
Deposit	147.3	155.1	–	43140
With Profits UL	123.8	130.3	–	44128

National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	311.4	327.8	–	43163
UK Equity	391.1	411.7	–	43164
Overseas Eq	293.5	309.0	–	43165
American	218.6	230.2	–	43166
Far East	303.4	319.4	–	43167
Property	193.6	203.8	–	43168
Fixed Int	242.9	255.7	–	43169
Indexed Gilt	150.8	158.8	–	43170
Deposit	173.7	182.9	–	43171
Pension Fund (Accum Units)				
Managed	431.7	454.5	–	43173
UK Equity	500.2	526.6	–	43175

Property Equity & Life Ass. Co
Baxter Ave, Southend SS2 6QR 0702 333433

	Bid Price	Offer Price	Yield Gross	City-line
Int Man Pension Fd	149.1	156.9	–	43369
Int Man Crncy Bd Fd		143.8	–	43370
Int Man Crncy Bd Fd(d)		130.4	–	43371
Flexible Prop. Bd. Fd		201.3	–	43372
Flexible Money Bd. Fd		106.3	–	43373
Special Man. Inc. Fd		133.5	–	43374

Prosperity Life Assurance Ltd
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690565

	Bid Price	Offer Price	Yield Gross	City-line
Initial Equity	130.0	140.0	–	42995
Accum Equity	194.0	205.0	–	43005
Accum Managed	199.5	211.0	–	43006
Accum Five Star	190.5	199.0	–	43011
Accum World	107.5	134.0	–	43013
Accum Lifetime	101.8	101.8	–	47139
Pens Acc Equity	203.0	214.5	–	43025
Pens Acc Managed	236.5	249.5	–	43026
Pens Acc Intl	171.5	182.0	–	43027
Pens Acc Deposit	187.5	198.0	–	43029
Pens Acc Five Star	154.5	168.5	–	43032

Providence Capital Life Ass. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	Yield Gross	City-line
UK Equity Acc	198.8	209.8	–	43411
UK Fixed Int Acc	164.6	173.7	–	43412
Intl Equities Acc	151.3	159.7	–	43413
UK Managed Acc	157.3	165.9	–	43414
Property Acc	236.8	249.8	–	43415
Money Acc	123.6	130.4	–	43416
Special Market Acc	117.5	124.0	–	43417
Japan Equity Acc	91.6	96.7	–	46760
North American Acc	83.3	87.9	–	43419
Pacific Acc	75.4	79.6	–	43420
Technology Acc	98.6	104.1	–	43421
Nat Resources Acc	50.1	52.9	–	43422
European Acc	92.4	97.7	–	43424
Resident Int Prop Acc	97.3	102.7	–	43425
Swiss Equities Acc	32.1	33.9	–	43426
Hong Kong Acc	47.4	50.0	–	43427
UK High Inc Eq Acc	63.9	67.5	–	43428
Int Fixed Interest Acc	53.2	56.2	–	46406

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + two digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
M & G (Guernsey) Ltd				
Island Gold	1454 2	1547.0	1.34	45421
(Accum. Units)	2634 7	2802.9	1.34	45422
Merrill Lynch Guernsey				
Bangkok NAV Dec 12	363 96		-	42709
Iberia Portfolio NAV	$10 08		-	46590
NM Financial Mgmt Intl Ltd				
Chigd Currency (Susp)	£-	-	-	45498
NM Portfolio Selection Fund Ltd (Suspended)				
Conscience	£-	-	-	46250
Far East Grth	$-	-	-	46251
Smaller Co's	£-	-	-	46252
Special Sits	£-	-	-	46253
Intl	$-	-	-	46254
American Fund	$-	-	-	45502
American Smaller Cos	$-	-	-	45504
Australian Fund	£-	-	-	45506
British Fund	£-	-	-	45508
European Fund	£-	-	-	45510
Gold Fund	£-	-	-	45512
Hong Kong Fund	£-	-	-	45514
International Fund	£-	-	-	45516
Japanese Fund	£-	-	-	45518
Japan Smaller Cos	£-	-	-	45520
Singapore & Malaysian	£-	-	-	45522
Dollar Fixed Interest	$-	-	-	45524
Sterling Fixed Int.	£-	-	-	45526
Deutschemark Currency	DM-	-	-	45528
Dollar Currency	$-	-	-	45531
Sterling Currency	£-	-	-	45532
Yen Currency	Y-	-	-	45534
Managed Currency	£-	-	-	45536
Nikko Capital Mngt (Europe) Ltd				
Japan Index Fund	Y2 739	2 767	-	45559
New Generation Fd $	$21 65	21 87	-	45560
Japan Index Alpha	Y7 634	7.748	-	46350
Jap Sector Rotation	Y6 746	6 845	-	47334
Jap Cap Grth CB	[illegible]	[illegible]	-	-
Prudential Intl Financial Services Ltd				
Holborn Currency Fund				
Managed Sterling	129.6	130 0	10 80	45637

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F						
PO Box 63 Bond Street, St. Helier, Jersey 0534 76029						
Stlg Fixed Int.	5½	£1 124	1 124	1 193	9 90	45259
Offshore High Yield	3½	£1 447	1.447	1.506	14 44	45249
Global Equity Fund	5¼	$13 54	13 63	14.58	1 32	45260
European Equity	5½	[illegible]	16.67	17.83	1.34	45258
UK Growth/O Fund	5½	£4 158	4 158	4 447	3 69	45264
Nth American Eqty	5½	$8.828	8.828	9.401	1.32	45250
Far Eastern Eqty	5½	$8.947	9 035	9 663	1 58	45252
Intnl. Bond Fund						
Sterling Managed	5½	£10.26	10 26	10 94	8 72	45266
US Dollar Managed	5½	$13 65	13 65	14 55	7 42	45266
International Currency Fund						
Sterling Managed ‡	5½	£24 68	24.68	26 12	-	45267
US Dollar Managed ‡	5½	$28.91	28 91	30 59	-	45268
Sterling ◆ ‡	0	£23 65	23 65	23 65	13 61	45269
US Dollar ◆ ‡	0	$37 08	37 08	37.08	6 51	45270
Deutschmark ◆ ‡	0	[illegible]	58 06	58 06	7 23	45271
Japanese Yen ◆ ‡	0	Y4,721	4 721	4 721	6.47	45272
Swiss Franc ◆ ‡	0	[illegible]	45 36	45 36	6 84	45273
Irish Punts ◆ ‡	0	[illegible]	21.49	21.49	7 63	40082
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey 0534 27561						
Lloyds Tst. Gilt	2½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26 St Helier, Jersey 0534 37788						
Intl Currnt Portfolio	6	89 03	89 03	94 45	0 00	41027
Gilt	3	91 99	91 99	94 84	12 65	45446
MIM Britannia International (Jersey) Ltd						
PO Box 271, St Helier, Jersey 0534 73114						
Jersey Gilt (z)	5¼	[illegible]	0.1669	0.1760	9 09	45451
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428 St Helier, Jersey 0534 76077						
Govt Secs Fd	4	54 85	54.85	57 30	11 34	45734
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey 0534 73494						

	Bid Price	Offer Price	Yield Gross	City-line
Scimitar Worldwide Money Fund Ltd				
Sterling	£20 9371		14.05	45808
US $	$33 9844		7 65	45809
D-Mark	DM68 5744		7 63	[illegible]
Swiss Franc	SFr52.2275		7 71	45811
Japanese Yen	Y6905 1513		7 40	45812
Australian $	A$35 3995		12.26	45813
Canadian $	C$29.5306		11.41	45814
Ecu	Ecu13 5932		9 16	45815
US$ Managed	[illegible]		-	45816
Sterling Managed	[illegible]		-	45817
Scimitar Worldwide Selection Fd Ltd				

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Fleming Group (u)						
45 Rue Des Scillas L-2529 Howald Luxembourg 010 352 405040 or 071-638 5858						
Fleming Flagship Fund						
FFF American		$-	13 65	14.52		46818
FFF Continental Europe		$-	14.37	15.29		46819
FFF Eastern Opps.		$-	9 96	10 60		47141
FFF European		$-	13 63	14 51		46820
FFF Global Conv		$-	11 33	12.06		46821
FFF Intl Bond		$-	10 51	11.19		46822
FFF Intl Equity		$-	26 50	28 28		46999
FFF Japanese		$-	19 14	20 35		46823
FFF Pacific		$-	10.27	11 46		46825
FFF UK		$-	1 07	1 13		46826

	Bid Price	Offer Price	Yield Gross	City-line
Codevalor (u)				
Croissance US$	$1650 69		-	42782
Rendement US$	$1604.90		-	42783
Rendement SFr	SFr1922 60		-	42809
Cortexa International (u)				
Cortexa Intl	$96.81		-	44957
Credit Commercial de France				
Euro Sesir Cos Class A	Ecu12 33		-	44866
Euro Sesir Cos Class B	Ecu12 33		-	44867
CM Actibonds (u)	538 45		-	44868
Euro Prestige Ch A (u)	Ecu8 90		-	44864
Euro Prestige Ch B (u)	Ecu10 47		-	44482

	Bid Price	Offer Price	Yield Gross	City-line
World Bond Fund—SICAV (u)				
World Bond Fund	$22.88	24.04	0.83	45996
Inv Ad Warburg Asset Mngt London				
World Capital Grth Fd—SICAV (u)				
World Cap Grth Fd	$11.98	12 62	0.79	45997
Inv Adv Warburg Asset Mngt London				
Yamaichi Advanced Technology Fd				
Advanced Tech	$22.14		-	46002
Yamaichi 1992 OMNI Fund SICAV (u)				
NAV	$11 36	11 42	-	47653

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

	Bid Price	Offer Price	Yield Gross	City-line
GW Investment Mngmt Ltd				
GW Guaranteed Futures Ltd-Ser 1 NAV July 31 US$9 13				
Gaia Currency Funds				
Gaia Hedge I	$118 55	118.94		46269
Gaia Hedge II	$294 37	261 54		46270
Gaia Hedge III	$82.39	84.49		45240
Gaia Gtd Crncy	$86 98			45241
Gartmore Investment Ltd				
Gartmore Fund Managers International Ltd				
Capital Strategy Portfolio				
Income Portfolio	1.00		11.98	46320

	Bid Price	Offer Price	Yield Gross	City-line
Nomura Warrant Fund 1990 Ltd				
NAV	54 51		-	43802
North Star Fund Managers (Cayman) Ltd				

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

A short tale of woe

HOPES OF lower UK interest rates have faded as sterling fails to live up to the market's high expectations; it has for some time been the weakest member of the the European exchange rate mechanism.

Any hopes of a rate cut this year were seemingly laid to rest by Mr Norman Lamont, the UK chancellor of the exchequer, when he told parliament last week that any reduction in rates must be justified by sterling's position in the ERM.

UK clearing bank base lending rate 14 per cent from October 8, 1990

The three-month London interbank offered rate indicated at delivery of December short sterling on Liffe on Wednesday rose to about 13¾ from 13⅝ last week, as the price fell to 86.10 from 86.68. Cash rates showed an even more pessimistic picture, with three-month Libor rising to 14 from 13¾ per cent over the same period.

December short sterling has been unusually active so close to delivery. At the equivalent point for the September contract volume had all but switched into December, but last week December was only slightly less active than March,1991 as disappointed traders continued to unwind long postions taken out on the assumption that last Friday's UK inflation data would produce an immediate cut of at least ½ point in UK base rates.

The way in which sentiment had changed can be gauged by the fact that short sterling futures continued to fall after the announcement that Britain's annualised inflation rate fell to 9.7 from 10.9 per cent in November. It seems that falling inflation and a probable UK recession are no longer seen as harbingers of lower interest rates.

Mr Lamont says the pound must improve, but the strong D-Mark is threatening to put it under increasing pressure, with another rise in German rates not ruled out for early in the new year.

£ IN NEW YORK

Dec.14	Close	Previous Close
£ Spot	1.9365-1.9375	1.9450-1.9460
1 month	1.04-1.03pm	1.07-1.05pm
3 months	2.77-2.75pm	2.84-2.81pm
12 months	8.58-8.55pm	8.60-8.50pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Dec 14	Bank of England Index	Morgan** Guaranty Changes %
Sterling	93.5	-18.9
U.S Dollar	60.8	-18.4
Canadian Dollar	101.5	+0.7
Austrian Schilling	111.0	+12.7
Belgian Franc	[illegible]	-1.6
Danish Krone	111.3	+5.6
D-Mark	121.1	+26.5
Swiss Franc	114.7	+23.4
Dutch Guilder	116.0	+17.4
French Franc	105.4	-11.4
Lira	100.2	-19.1
Yen	131.4	+66.6

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Dec. 13.

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

OTHER CURRENCIES

[illegible]

CHICAGO

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EXCHANGE CROSS RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

FINANCIAL TIMES STOCK INDICES

	Dec 14	Dec 13	Dec 12	Dec 11	Dec 10	Dec 7	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	83.37	83.31	83.39	83.27	83.29	83.29	84.20	74.13	127.4	49.18
Fixed Interest	91.14	91.02	91.17	90.88	90.69	90.64	92.91	83.80	105.4	50.53
Ordinary	1701.2	1704.9	1692.2	1708.0	1721.5	1723.8	1968.3	1510.4	2008.6	49.4
Gold Mines	138.8	139.1	141.8	148.1	148.4	150.4	378.5	138.8	734.7	43.5
FT-Act All Share	1042.90	1044.39	1038.76	1042.43	1049.99	1050.67	1226.83	962.09	1238.57	61.92
FT-SE 100	2168.4	2172.2	2156.9	2165.8	2182.5	2183.4	2463.7	1990.2	2463.7	986.9
FT-SE Eurotrack 100	992.71	996.21	993.81	989.49	992.09	1002.10	1003.35	948.31	1000.00	948.31

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY DECEMBER 14 1990 US Dollar Index	% chg ($) since 29/12/89	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/89	Gross Div. Yield	THURSDAY DECEMBER 13 1990 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1990 High	1990 Low	Year ago (approx)
Australia (75)	119.94	-20.8	91.68	100.78	92.57	104.30	-18.1	7.84	120.59	91.97	100.74	92.82	105.23	158.31	118.98	146.79
Austria (19)	210.23	+15.4	160.70	176.61	162.25	162.34	+1.5	1.68	211.86	161.57	176.98	163.07	162.97	285.63	178.57	167.57
Belgium (60)	137.25	-11.3	104.92	115.30	105.93	104.08	-23.3	5.51	138.99	106.00	116.09	106.98	105.05	160.02	126.57	149.79
Canada (120)	129.40	-15.0	98.92	108.70	99.86	108.65	-14.9	3.09	129.73	98.94	108.37	99.85	108.98	153.61	121.24	152.20
Denmark (33)	246.28	+1.7	188.27	206.90	190.08	191.60	-11.6	1.57	243.54	185.74	203.45	187.46	188.61	277.62	234.05	236.99
Finland (25)	103.74	-22.2	79.30	87.16	80.07	78.00	-31.0	3.91	104.71	79.85	87.47	80.59	78.31	152.29	98.91	130.89
France (122)	140.83	-9.7	107.65	118.30	108.68	111.50	-21.3	3.73	143.29	109.28	119.69	110.28	113.06	168.85	124.98	150.09
Germany (91)	121.74	-1.6	93.06	102.29	93.96	93.96	-13.6	2.42	123.18	93.94	102.91	94.81	94.81	144.63	101.38	112.19
Hong Kong (48)	125.73	+7.3	96.11	105.62	97.04	125.93	+7.3	5.31	126.74	96.65	105.87	97.55	126.96	147.49	112.24	120.56
Ireland (16)	158.62	-12.6	121.25	133.25	122.42	124.76	-24.2	4.16	159.67	121.77	133.38	122.90	125.03	198.57	139.04	176.12
Italy (91)	84.54	-14.1	64.62	71.01	65.24	70.81	-24.1	3.48	84.27	64.27	70.39	64.86	70.27	109.26	75.73	96.14
Japan (453)	131.42	-33.4	100.46	110.40	101.44	110.40	-38.5	0.77	133.31	101.67	111.36	102.63	111.36	197.26	108.58	197.07
Malaysia (36)	207.55	-9.4	158.65	174.35	160.18	215.30	-9.6	3.14	207.27	158.07	173.14	159.53	214.94	250.89	182.96	218.57
Mexico (12)	603.06	+85.3	461.00	506.62	465.44	1943.79	+103.1	0.35	604.01	460.64	504.55	464.91	1941.55	613.96	324.53	302.54
Netherland (41)	135.33	-5.9	103.45	113.69	104.45	103.46	-17.6	5.19	135.32	103.20	113.03	104.16	103.14	149.08	127.56	138.88
New Zealand (15)	43.91	-39.1	33.56	36.89	33.89	38.98	-39.5	8.77	44.36	33.83	37.06	34.15	39.41	75.36	43.91	71.09
Norway (27)	214.21	+7.2	163.75	179.96	165.33	169.14	-5.4	1.85	212.51	162.07	177.52	163.57	167.65	276.79	202.94	193.29
Singapore (25)	162.77	-8.2	124.42	136.74	125.62	128.58	-17.1	3.43	164.22	125.24	137.18	126.40	129.41	209.24	147.24	174.26
South Africa (60)	174.79	-11.1	133.61	146.83	134.90	134.29	-11.7	4.07	175.60	133.92	146.68	135.16	134.92	251.38	151.50	186.60
Spain (41)	151.00	-7.4	115.43	126.86	116.54	108.85	-20.1	5.15	153.53	117.09	128.25	118.17	109.68	182.25	126.54	162.32
Sweden (27)	167.21	-12.9	127.82	140.47	129.05	138.31	-21.4	2.94	168.57	128.56	140.81	129.75	139.25	234.93	153.11	185.20
Switzerland (68)	91.29	-3.0	69.78	76.70	70.47	72.10	-19.8	2.92	92.37	70.44	77.16	71.10	72.47	109.77	85.00	92.08
United Kingdom (298)	168.18	+6.0	128.56	141.27	129.79	128.56	-11.9	5.44	168.84	128.76	141.02	129.94	128.76	176.18	139.87	153.08
USA (533)	131.99	-7.7	100.89	110.89	101.87	131.99	-7.7	3.75	133.08	101.50	111.18	102.44	133.08	146.95	119.06	141.75
Europe (959)	140.17	-1.8	107.15	117.76	108.19	108.10	-15.8	4.30	141.19	107.68	117.94	108.68	108.56	157.65	124.91	138.35
Nordic (112)	176.30	-5.9	134.77	148.11	136.07	135.70	-16.7	2.24	175.91	134.15	146.94	135.40	135.08	223.29	170.59	181.96
Pacific Basin (651)	130.43	-32.3	99.71	109.58	100.67	110.33	-36.9	1.17	132.24	100.86	110.47	101.79	111.29	192.75	107.82	192.15
Euro-Pacific (1610)	134.76	-22.0	103.01	113.20	104.00	110.20	-29.5	2.50	136.25	103.91	113.81	104.87	110.95	174.18	118.03	169.95
North America (653)	131.74	-8.2	100.70	110.68	101.69	130.45	-8.2	3.75	132.79	101.27	110.94	102.23	131.49	148.43	119.26	142.27
Europe Ex. UK (661)	122.73	-6.4	93.82	103.13	94.74	96.00	-18.4	3.48	123.92	94.51	103.54	95.41	96.81	145.82	109.84	124.94
Pacific Ex. Japan (198)	118.16	-12.4	90.32	99.28	91.20	105.90	-11.7	6.33	118.93	90.70	99.36	91.55	106.75	146.72	116.03	133.32
World Ex. US (1802)	135.24	-21.5	103.38	113.62	104.38	110.84	-26.7	2.55	136.69	104.24	114.19	105.21	111.58	173.77	117.12	169.58
World Ex. UK (2037)	129.63	-19.5	99.09	108.91	100.06	116.32	-23.4	2.65	131.01	99.91	109.44	100.85	117.24	162.00	115.37	159.13
World Ex. So. Af. (2275)	132.80	-17.3	101.51	111.57	102.50	117.40	-22.4	2.95	134.12	102.28	112.04	103.24	118.25	161.84	118.04	159.40
World Ex. Japan (1882)	135.22	-5.8	103.36	113.60	104.37	121.24	-11.4	4.07	136.24	103.90	113.82	104.88	122.02	151.59	124.31	140.30
The World Index (2335)	133.05	-17.2	101.71	111.78	102.69	117.53	-22.3	2.96	134.37	102.47	112.25	103.48	118.37	162.05	118.33	158.57

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

CONSTITUENT CHANGES: Additions: (11/12/90) Electrabel (5 lines) (Belgium). Deletions: (10/12/90) Carroll (P.J.) (Ireland). (11/12/90) Ebes (3 lines) (Belgium) and Intercom (3 lines) (Belgium). (13/12/90) Citroen Hispania (Spain).

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

BRITISH FUNDS—Contd

Index-Linked

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

Continued on next page

LONDON SHARE SERVICE

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BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	ABN Amro Fl5	£97	0.7	8.7	4.9	Aug May	1567
1,129.1	ANZ $A1	137	-4.2	11.1	12.6	Jan Jul	1698
[illegible]	Abbey National 10p	228	-1.3	3.3	6.8	Apr Oct	5411
968.7	Allied Irish Ord	149	..	6.0	19.11	Dec July	1354
[illegible]	Anglo Irish	57	3.6	7.0	10.12	Jan July	1365
113.9	Ansbacher (H.) 1p	61	-1.6	5.5	12.3	April	1624
832.5	Bancaire Cie Fr100	£48½	-0.1	2.7	9.5	May Mar	2202
[illegible]	Banco Bilbao Vi.	£14¼	3.5	5.4	9.12	Dec June	–
[illegible]	Banco de Santander	£26½	3.0	3.8	31.10	Apr Oct	–
532.5	Bank Ireland IrE1	159	5.3	8.3	19.11	July Dec	1360
[illegible]	Bank Leumi	£19½	–	–	–	–	1740
25.0	Bank Leumi (U.K.)	350	......	5.7	6.8	Mar Sep	1740
[illegible]	Bank Scotland	115	-0.9	5.3	8.10	Dec Jul	1742
96.5	Do 9¼pc Irrd Pf	96½	-3.5	12.8	22.10	May Nov	1462
13.4	Bank of Wales	42	.	8.9	8.10	Nov Jun	1743
[illegible]	Barclays £1	362	-7.2	7.2	20.8	Oct May	1754
5.90	Benchmark 20p	11	10.0	9.1	9.4	May Oct	1802
33.5	Brown Shipley £1	210	-3.7	[illegible]	10.12	Jun Aug	1983
91.2	Cater Allen £1	385	0.5	8.5	19.11	Jan. Aug	2001
8.76	Chancery	42	-4.5	[illegible]	25.6	Jan July	2102
395.1	Commerzbk DM10	£17½	1.8	3.5	27.5	May	1046
[illegible]	Dai Ichi KBk Y50	743	-1.6	0.5	4.7	June	3221
[illegible]	Deutsche Bk DM50	£226	2.9	2.1	17.5	May	2345
176.4	Espirito Santo	£16½	0.8	2.3	–	June	5187
[illegible]	First Nat. Fin 10p	183	-3.2	9.5	9.7	Mar Aug	2572
46.0	FNFC 6.3pc Cv Pf	95	-2.1	8.8	25.6	July	2570
[illegible]	Fuji Bank Y50	876	4.0	0.4	4.7	Dec June	1084

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS — Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS — Contd

[illegible]

ELECTRICITY

[illegible]

ENGINEERING

[illegible]

ENGINEERING — Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) — Contd

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

LONDON SHARE SERVICE

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MOTORS, AIRCRAFT TRADES – Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY – Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST – Contd

INVESTMENT TRUST – Contd

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES – Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	790	
Finlay Pkg 5p	38	
Holt (Jos) 25p	1385	
Carrol (P.J.)	154	
Heiton Hldgs	48	
IRG	135	
United Drug	140	

IRISH

Cp. 8¾% Ln 1991	£98¾	
9pc Cap Ln 1996	£95	0.9
Fin. 13% 97/02	£111¼	0.2
Arnotts	360	

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	6
Aztec (BSR)	4½
BAT	46
BOC Grp.	28
BTR	25
Barclays	38
Blue Circle	19
Boots	29
Bowaters	43
Brit Aerospace	45
British Steel	10½
Brit. Telecom	23
Cadburys	25
Charter Cons.	38
Comm Union	48
Courtaulds	28
Eurotunnel	35
FKI	5
FNFC	20
Gen Accident	41
GEC	19
Glaxo	60
Grand Met.	57
Guardian	17
GKN	27
Hanson	16
Hawker Sidd.	35
ICI	70
Ladbroke	22
Legal & Gen	32
Lex Service	17
Lloyds Bank	29
Lucas Inds.	11
Marks & Spencer	19
Midland Bk.	16
Nat West Bk	21
P & O Dfd.	44
Racal Elect.	16
RHM	23
Rank Org Ord.	32
Reed Intnl	32
STC	19
Sears	7½
SmKl Beecham A	41
TI	35
TSB	11
Tesco	19
Thorn EMI	65
Trust Houses	23
T&N	13
Unilever	55
Vickers	16
Wellcome	33

Property

Brit Land	24
Control Secs.	3½
Land Securities	45
MEPC	36
Mountleigh	9

Oils

Aviva Petlm	3½
Brit Petroleum	27
Burmah Castrol	46
Conroy Petlm.	15
Gaelic Res.	2½
Premier	7
Shell	37
Tuskar Res	3
Ultramar	29

Mines

Lonrho	19
RTZ	48

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,050 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: BTR Warrants 1994/95 (Section: Industrials)
Daimler-Benz (Industrials)
Pokhand (C.P.) (Foods)
Siam Selective Growth Trust (Investment Trusts)
Do. Warrants (Investment Trusts)

4pm prices December 14

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
38⅞	9½	AAR	.48	5.0	6	5204	10⅛	9⅝	9⅝	- ⅛
9⅜	7¼	ACM n	1.01	11.		341	8⅞	8¾	8¾	+ ⅛
11⅛	8⅝	ACMIn	1.26	12		1486	10⅞	10¼	10¼	- ⅛
9¼	6½	ACM M	n1.01	13.		884	7⅞	7½	7⅞	
12⅛	10	ACMMM	1.50	13.		319	11⅜	11⅛	11⅛	- ⅛
11½	8⅞	ACM Sc	1.26	13		1773	9⅞	9⅝	9⅞	
8⅝	7⅛	ACMSp	1.01	12.		595	8⅝	8⅜	8⅝	+ ⅛
24⅝	16¼	AL Lab	.18	.7	20	49	24⅛	23¾	23⅞	- ⅛
4⅞	1	AM Intl				387	1¼	1⅛	1⅛	
19⅛	4⅜	AM In pf	2	29		29	7	6¾	7	
70⅛	39¾	AMR			15	6211	51½	49½	50½	- 1⅛
4	1⅞	ARX				182	1⅛	1⅛	1⅛	
72⅛	38⅛	ASA	3	7.3		554	41⅞	40½	41⅛	+ ½
3½	2	ATTC wt				640	2¼	2⅛	2⅛	- ⅛
48⅞	37¼	AbtLab	s.84	1.9	21	4910	45½	44⅞	44⅞	- ⅜
14	10¼	Abitibi	g.50			2	10⅞	10⅞	10⅞	
11⅞	4⅜	AcmeC	.40	8.0	11	142	5	4⅞	5	+ ⅛
9⅜	5	AcmeE	.32	5.7	10	30	5⅝	5½	5⅝	+ ⅛
32⅛	16⅞	Acuson	s		21	[illegible]	27⅛	26⅜	27	+ ⅛
16⅞	14⅞	AdaEx	1.72e	12.		241	14⅞	14⅝	14⅝	- ⅛
15⅝	9⅝	Adobe				84	9⅞	d 9½	[illegible]	
20⅛	16	Adob pf	1.84	11		25	17⅛	16⅞	17	
21⅝	19⅛	Adob pf	2.40	12.		28	19⅞	19⅝	19⅝	+ ⅛
11⅝	3⅝	AMD				3400	4⅞	4⅝	4⅝	- ⅛
32⅝	13	AMD pf	3	[illegible]		83	15⅝	15½	15⅝	
9	1⅝	Advest	.16	6.7		50	2⅜	2⅜	2⅜	+ ⅛
61	29	AetnLf	2.76	7.1	8	4128	39½	38½	39	- ½
12⅛	6⅛	AfilPb	.24	3.0		207	8	7⅞	7⅞	
22½	10⅞	Ahmans	.88	6.6	6	3145	13⅞	13¼	13⅜	- ⅛
3⅝	1⅞	Aileen			6	183	3⅛	3	3⅛	+ ⅛
61	42⅞	AirPrd	1.44	2.7	13	482	54⅛	53¼	53½	- ⅛
27	13½	AirFrt	s.30	1.7	9	725	18⅜	17⅞	18	- ⅜

Continued on Page 31

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
30½	18⅞	Quanex pf2.20		9.8		20	23⅛	22¾	22½	
32⅝	8⅝	Quantm .44t		3.0	13	1316	15	14⅛	14⅝	-½
14	11⅞	QstVI	1.20a	9.3		163	12⅞	12¾	12⅞	-⅛
14⅝	10⅛	QstVC				401	11¾	11⅞	11⅝	
39¾	32⅝	Questar	1.96	5.4	14	352	36½	36	36⅛	+⅛
16½	8⅝	QkReily	.28a	2.9	8	371	10	9⅝	9⅝	-⅜
		- R - R - R -								
11⅞	10⅛	RAC In	1.38	12.		278	10⅝	10½	10⅝	
8⅝	2	RAC	.56e	11.	8	88	5⅜	5	5⅛	-⅛
22	17⅛	RJR pf				2990	21¼	20⅞	21	-⅜
7¾	3¾	RJR Nb wt				652	5	4⅞	5	
14⅜	6¼	RLI Cp	.44	3.4	6	8	13⅛	13	13⅛	
13	3¾	RMI Ti	.10	2.0		257	5	4⅞	5	
17⅝	5⅝	ROC Fd.22e		2.9		505	8	7⅝	7⅝	-⅛
9⅜	5⅜	RPC			18	52	8½	8⅜	8½	+⅛
8¼	4½	RPS	.82e	15.	8	70	5⅜	5⅛	5⅜	-⅛
67⅛	42⅝	Racal	.60e	1.2	25	4251	50½	49½	49⅞	+1⅛
106⅝	77⅞	RalsPur	1.20	1.2	15	1855	101⅛	99⅞	100⅛	-1¼
8⅝	6⅝	RangrO	.08e	.9	18	1007	8⅜	8⅝	8⅝	+⅛
35½	16⅝	Raycm	.32	1.5		887	21¼	20½	20⅞	
22⅝	14⅞	RJamF	.24	1.4	6	8	17	17	17	+⅛
28½	18¼	Raymr	3.40	18.	5	58	19⅞	19¼	19¼	-½
71¼	57¼	Raythn	2.40	3.5	8	1435	68⅞	67¼	68	+½
28	21	RdrDg n .20		2.2	17	646	27⅞	27½	27⅝	-⅛
4	1⅛	RdgBat				132	1⅝	1⅝	1⅝	+⅛
18⅞	11⅝	REIT	1.42	11.	9	48	12⅞	12⅞	12⅞	-⅛

[illegible]

AMEX COMPOSITE PRICES

4pm prices December 14

[illegible]

NASDAQ NATIONAL MARKET

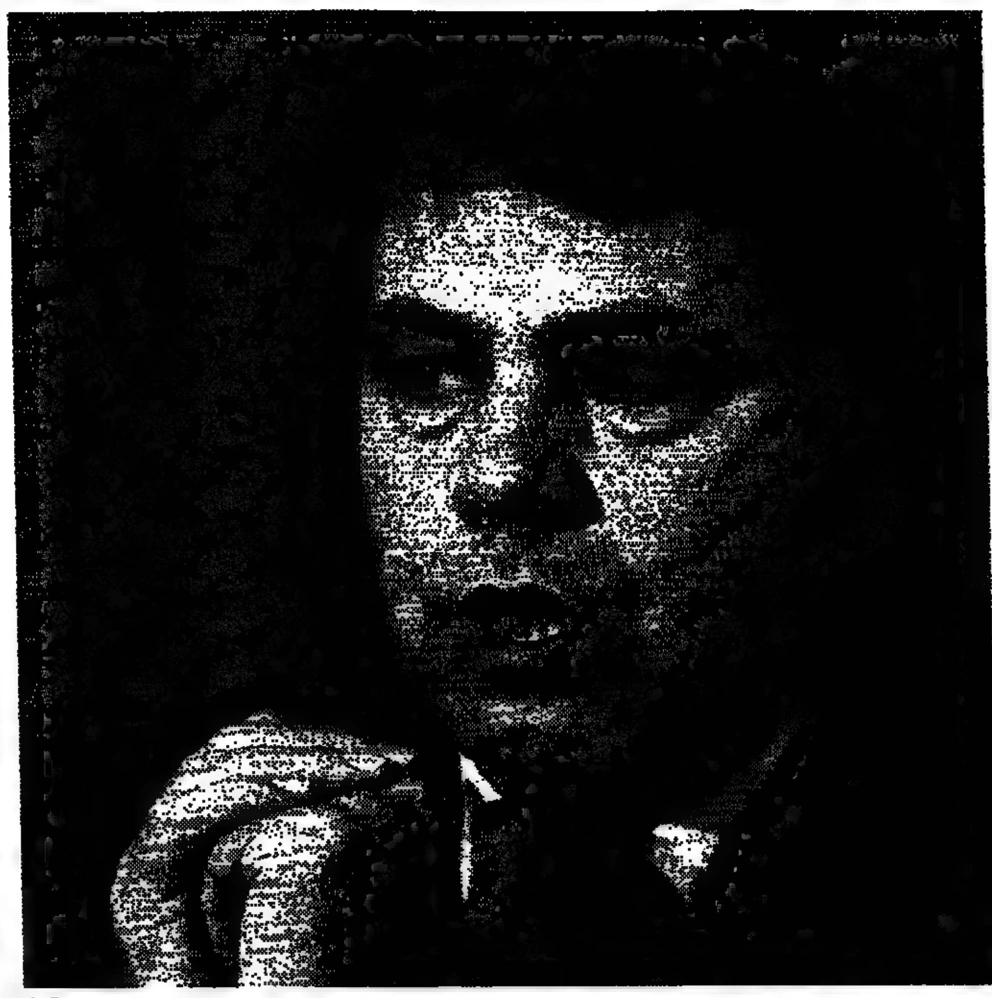
4pm prices December 14

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
WstEx pf2.25			63	11⅞	d10¾	11⅞	+⅛
Worthg	.60	17	722	22¼	21⅞	22	-⅛
Wyman	.60		815	7	6½	7	
- X - Y - Z -							
XL Dta		8	207	6⅝	6½	6½	-⅛
XOMA			6967	20	18	20	+1½
Xilinx			652	13⅛	12¾	13⅛	-⅛
YorkEnS	1.52	13	26	21¼	20¾	20¾	
Yelowf	.94	20	1792	26⅜	25⅞	26⅛	
YorkRs		19	536	10½	9⅞	10⅛	-⅛
Zeos		14	346	12½	11¾	12¼	-⅛
ZionBc	1.44	7	31	30¼	29¾	29¾	-⅛

MONDAY INTERVIEW

The left's saving grace

Felipe González, Spain's prime minister, talks to **Peter Bruce** and **John Lloyd**



'One cedes sovereignty in order to share it'

There is one European leader who professes to no concern over the issue of sovereignty, or of the encroachments a future Europe might make upon it. Mr Felipe González, prime minister of Spain, is as strong on one side of the issue as Mrs Margaret Thatcher has been on the other.

"Let me say immediately that one cedes sovereignty in order to share it. Some people have the false idea that you can give sovereignty to someone else so that they can run our country, which is absurd. I agree that politics has its contradictions. I accept that we are in a D-Mark zone. The difference between there being [one day] an EC institution to define monetary policy and the reality now is that we depend on the D-Mark, but according to the decisions taken in the Bundestag and not on common decisions shared by all.

"So we cede sovereignty to have a share in decisions, to somehow win sovereignty over monetary policy. It is an obvious contradiction and everyone knows it. But no one says it like I do. Maybe no one thinks of saying it, of recognising it."

Mr González has established something of a reputation for saying things which others do not – even if he *is* too self-conscious of it.

There is a debate about whether or not this man, still young, ever was "really socialist" in the years of clandestine political activity which preceded his rapid rise to leadership of the Spanish Socialist Workers Party (PSOE) and to the top office.

But it probably does not matter now. Mr González has been leader of the PSOE for 16 years and prime minister of Spain for nine. He has presided over the transformation of a dowdy market economy into one of west's most attractive, yet he is still considered one of the most successful leaders of the European left.

Delegations from the emerging eastern European democracies have made Madrid a place of pilgrimage. While they go to London and Paris for money, they travel to Madrid for advice. The Romanians, the Poles and the Czechs – all ask the same questions: how does a poisoned totalitarian economy become a rich one?

Mr Mikhail Gorbachev, the Soviet President, was the last one to make the trip and hear the (by now) depressing González lecture: there are no lessons in Spain for eastern Europe or the Soviet Union.

"What the beginning of democracy did to us was to fling us up against reality," Mr González tells visitors. "For socialists it meant the passing from the accumulation of an ideology very removed from reality to the need to manage – as opposition or government – the social and economic realities of our country."

Mr Gorbachev later described his talks with Mr González as "perhaps the most important I have ever had". Why, one wonders. Here he is, 48, handsome, and ageing perfectly – the distinguished flecks of grey hair, the little stomach roll where once the stomach was flat. His three children are not unlike others of their age – the boys chase girls and perform badly at school. His daughter wants to be a dancer. His impressive wife has finally got a job – as a PSOE MP. The trick may be that Mr González is not embarrassed to pronounce himself as leftwing even if conventional wisdom has long since placed him elsewhere.

"What still identifies me as a socialist? Well, my rejection, my repugnance of the fact that a person's health can be subject to the rules of the market place. If you can afford the product, buy it. You can't? Well, you are finished. If someone without money needs a kidney transplant our duty is to give them the opportunity."

There are not many people who talk like this and who are still running countries in western Europe, which may be why Mr Gorbachev seemed to take what he heard so seriously. "Look," says Mr González, leaning forward out of his couch, "Gorbachev is in a terrible fix because perestroika cannot rationally or legitimately be explained by the October Revolution (which is what he is trying to do). That means looking to Lenin to explain everything while what is happening is the exact opposite of what the October revolution was about."

"I have said that there has never been a Spanish model," he says. After Franco's death in 1975 ended four decades of dictatorship "we worked hard, at moderation, at mutual respect, at tolerance, that gave rise to a great degree of understanding. There was extraordinary improvisation. No one knew how the whole thing would work out.

"Also, Spain had a personal dictatorship, not a totalitarian system. Franco and, later, Pinochet, showed us that market economies are perfectly compatible with dictatorships.

"But the last thing I tell visitors from eastern Europe is usually the most bitter – things are going to be bad. And I can say this from my Spanish experience. Franco died in 1975 and the whole world rejoiced . . . but we went through a terrible economic crisis and we discovered that international solidarity did not translate into economic aid or a flow of investment."

Mr González's considerable luck since coming to power in 1982 just at the time of a global economic recovery has often led people to make rather absurd comparisons between him and Mr Thatcher. But he is, and he would not object to

PERSONAL FILE

1942 Born in Seville.
1964 Joins Spanish Socialist Party (PSOE).
1965 Graduated from law school. Continued studies at The Catholic University of Louvain, Belgium.
1966 Opened labour law office in Seville.
1974 Elected first secretary of PSOE.
1982 Prime minister
1986 Re-elected for second term.
1989 Re-elected for third term.

the description, managing and not pioneering. The frontiers of the state are by no means under attack in his Spain. Nine years on, the state still sets insurance premiums, telephone tariffs and petrol prices. It still owns the biggest airline, the biggest steel maker and one of the biggest banks. It protects monopolies in tobacco and inefficient cabals like pharmacies.

He dislikes labels. "Take Denmark," he says. "Who doubts Denmark is a capitalist country? But its public sector accounts for 60 per cent [of the economy]. Or Italy, whose Christian Democracy – which is by no means a leftwing alternative – has nationalised more than the Social Democrats in Germany or Sweden."

Nevertheless, he enjoys the fact that socialist parties in Europe have stopped talking about commanding the technological heights of an economy and that socialist parties and trade unions are gradually parting company.

Mr González's party's own split last year with the socialist Union General de Trabajadores (UGT), which it founded more than 100 earlier, means the dreaded deed is done. The union broke away complaining about the conservative drift of government economic policy.

"I have to say that the party would not have taken this decision had the union not taken it first," he says with relief. "The Social Democrats in Sweden are moving – very slowly, as the Swedes fortunately do – towards the separation of the party from the unions. Oskar Lafontaine is demonstrating this in a dramatic way in Germany and in the past decade what has Neil Kinnock done? Basically, revived the Labour party."

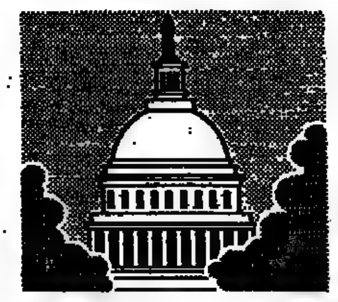
He lingers a little on this concept. For him, all parties of the left are undergoing a similar process – "recovering their autonomy" from the restraints and embraces of natural allies, particularly the labour unions. They are now free to become, he thinks, parties which can propose ideas, projects and actions, parties with a certain tradition – but not parties of class, or of a defined set of economic principles. They travel light.

But Mr González is an odd mixture. He craves his autonomy, but wants to drag the left, "a new left", with him wherever he goes. He wants to be popular but he wants to be a thinker as well. He wants to do the obvious but he constantly has to tell his supporters what the obvious is. For example: "Many colleagues think about what we have done in the past decade and say 'what they have done is all very well but it wasn't what we (socialists) are about. But that is dogma.'"

More than any other socialist leader in power, Mr González has been concerned to make explicit at least some of the contradictions between being "socialist" and instituting market reforms. Where others deny them, or bury them, or try to prove the seamlessness of the web their party has always spun, he is relatively frank.

We left as we came, through the Moncloa Palace garden full of the bonsai trees which the prime minister collects and cultivates. The symbolism is clear: that the political project is no longer a grand system, but a myriad of small growths. Many of them, as one of his colleagues told us, do indeed come from Japan. But others are planted and raised in the soil of Spain.

How to help the Soviet Union



MICHAEL PROWSE on America

One of the most poignant sights last week was Mr Eduard Shevardnadze, the Soviet foreign minister, standing in the White House Rose Garden as President George Bush announced $1bn in emergency food loans.

The ceremony showed the US at its generous best while forcing viewers to ponder how a once proud nation could have slipped into such abject dependency. If capitalism rather than communism had foundered, it is doubtful that the Soviets would have been as magnanimous in victory. The US support – plus the billions pledged by European Community leaders – is worthwhile even if it provides only a temporary breathing space for Mr Mikhail Gorbachev.

But the Soviet Union's future will be largely determined by its ability to achieve a peaceful transition to capitalism. In this context, the potential significance of its proposed "special association" with the International Monetary Fund and World Bank can hardly be overstated.

This represents an historic re-engagement rather than an entirely new relationship: the Soviet Union, after all, played a full part in the 1944 Bretton Woods conference that acted as midwife to the fund and bank, although it shunned immediate membership.

But what, if anything, does the special associate status signify? Will it have any legal standing? The White House was quick to emphasise that the Soviets will not gain access to the large financial resources of the Bretton Woods institutions: there will be no loans of any description. Nor would alterations to the fund's articles or the bank's charter be required.

The new status is primarily intended to allow the Soviet Union to tap the institutions' deep reserves of economic expertise and provide a framework for implementing the study of the Soviet economy commissioned at the Houston economic summit.

Associate status, however, raises a number of questions. The fund and bank are essentially a club whose privileges are reserved for members who abide by the rules and pay their subscriptions. The only extant long-standing relationship with a non-member is with Switzerland. But here the Bretton Woods twins have been the beneficiaries: Switzerland contributes to the International Development Association (the World Bank's concessional finance subsidiary) and provides a lucrative market for bond issues.

The link with the Soviet Union, which will involve permanent representation in Moscow and – if it is to have any impact – a quite large commitment of manpower, will inevitably be a drain on the club. Why should other members, many of whom are much poorer than the Soviet Union (a billion people in the developing world still live on a $1 a day or less), allow such a diversion of resources?

The short answer is that a smooth transition to a market based Soviet economy is in everybody's interest. In addition, the special association is evidently intended as an evolutionary step. The Soviets, at any rate, are dead set on full membership. Mr Barber Conable, the bank's president, recounts how on a recent visit to Moscow he listed the obstacles to membership and warned Mr Shevardnadze that "protracted wrangling" was inevitable. Mr Shevardnadze left the meeting undeterred, telling reporters they had agreed it was time the Soviet Union joined.

The technical problems mainly involve capital allocations. The Soviet Union would need a 4 to 5 per cent stake but, following the tussle over Japan's increased voting power, none of the other members would readily concede a diminished status. The US owns just over 15 per cent and does not want its share to drop because it would then lose veto power over changes to the bank's charter. Group of Seven countries own 52 per cent and would not wish to lose their majority share. Developing countries already feel discriminated against because they own only 42 per cent of the bank despite paying its $1bn running costs through spreads on loans.

A more fundamental objection is that the Soviet Union is politically and economically too unstable for membership and borrowing rights to be contemplated in the near future. How can a nation that may soon disintegrate join a club as respectable as the fund and bank? There is force in this objection but in many respects the Soviet Union's problems are simply those of eastern Europe writ large. Yet the eastern European states are now members and are receiving heavy financial assistance.

The bank, for example, will lend the region $8bn to $9bn over the next three years, which represents about 17 per cent of its planned lending to middle income countries. IMF stabilisation and structural support will add another $3bn to $5bn. And officials note that countries can typically raise $4 from private sources for each $1 lent by the Bretton Woods institutions.

The Soviet Union will get considerable bilateral financial support, particularly from Germany. But given the momentous issues at stake, it is questionable whether the fuzzy "special association" proposed by Mr Bush represents a big enough contribution by the fund and bank. There is a limit to what legions of advisers can achieve without hard cash.

In the West, after all, even trifling tax reforms are considered unthinkable unless the losers can be compensated. Copious technical assistance is much better than nothing but history may judge that a rather fuller commitment was needed. The risk is that tomorrow will be too late.

Fading of the EC fairy tale

IAN DAVIDSON on Europe

The European summit which has just ended in Rome is arguably the most important event since the Community was founded 40 years ago. The two inter-governmental conferences inaugurated on Saturday should launch the 12 decisively down the parallel roads towards economic and monetary union and much closer political integration. If these processes are pursued successfully, western Europe will have made a breakthrough towards the kind of Community originally envisaged by the founding fathers.

Yet despite its obvious significance, the Rome summit turned out to be a curiously dour affair. There was none of the exultation that greeted the Dublin summit in the summer and the first Rome summit two months ago – both of which marked big steps towards the decisions of this weekend. Instead the post-conference atmosphere was jaded, and just slightly apprehensive. Mr Jacques Delors, the Commission president, openly expressed his "mistrust" that the negotiations on Emu would be deliberately de-railed, and warned darkly that this would precipitate a political crisis.

Four phenomena may explain this strange turn of events: post-climactic weariness; the Delors factor; the Major factor; and apprehension at the immensity of the issues facing the IGCs.

The weariness is least important, but is clearly significant. This year has imposed an extraordinary load on Europe's diplomatic machines, starting with German unification and the "two plus four" negotiations, going on to the Vienna arms talks and the CSCE summit, continuing with the problems of the Soviet Union and eastern Europe, expanding with the Iraq crisis, and climaxing with the Rome summit.

At the end of such a year, it is astonishing that the US administration should have imagined that it could force a Gatt crisis which would push the trade negotiations to the top of the European agenda, ahead of the future of the Community; in the event, the heads of government had neither the energy nor the inclination to devote time to the factitious Gatt crisis.

When history is written, Jacques Delors will have a towering place in Europe's Pantheon; but he does have a tendency to take the construction of Europe rather personally. He fears that the IGC on political union will result in a reduction in the relative role of the Commission; he predicts that many people will try to prevent an agreement on Emu; and he believes that his overtures of compromise towards the British plan for a hard Ecu were spurned by Mr Major.

Mr Delors' fears are not all equally founded. The French tendency to identify with the nation state has long been at odds with the potentially supra-national role assigned to the Commission by the Rome treaty. So when President François Mitterrand declares that the EC's end-goal is a federation, he counter-balances this domestically alarming idea with a plan to strengthen the inter-state role of the European summits. French officials protest there is no conspiracy to weaken the Community; Mr Delors, however, still fears that atavistic French reflexes are too strong.

Mr Delors is almost certainly correct in believing that a failure of the Emu negotiations would provoke a political crisis. But failure is not inevitable, and Mr Delors' alarmist talk is not obviously helpful.

The Major factor is the most immediate explanation of the sense of anti-climax in Rome; it is also the mirror image of the belated apprehension at the political undertaking which lies ahead.

The new British prime minister was lavish with assurances of his constructive intentions, and the other governments were anxious to give him the benefit of the doubt. They hope his inclination is more profoundly European than Mrs Thatcher's, but they just wonder; in any case, they suppose he will need time to reveal it.

The problem is that Mr Major's presence in Rome seemed to epitomise the long-delayed confrontation between the European ideal and the complexities of political reality.

So long as Mrs Thatcher was around, the debate over the political future of the Community took place in a fairy-tale world of ginger-bread castles and wicked witches. The wicked witch could scream, but the children knew that she could not stop them getting to the ginger-bread castle, where they would live happily ever after.

Implausible as it may seem, Mr Major has brought an end to this reassuring fairy-tale. Some fear that he will be much more effective than the old wicked witch in stopping the children from getting to the ginger-bread castle; others fear that some of the children are really secret allies of the new witch; and all are afraid that there may not be a ginger-bread castle, after all.

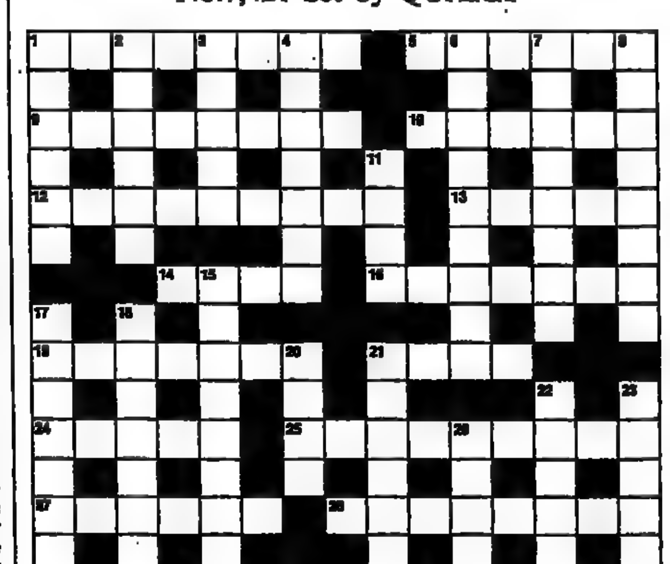
The hard fact is that there is no European integration without political stress; and if we are at the most important turning point in the Community's history, then the political stress will be correspondingly great. There is no way to finesse economic and monetary union with a trick Ecu; that kind of ploy is merely dishonest, and if Mr Major succeeds in de-railing Emu, then Britain will deserve the political ostracism which it will get.

The establishment of economic and monetary union, and the creation of a political and security union in Europe, will require every member state to consent to massive losses of apparent sovereignty. If the two IGCs succeed in the task sketched out by the two Rome summits, the political structures of the nation states of Europe will be transformed beyond recognition. It is not surprising that the atmosphere in Rome on Saturday afternoon was sober, not to say sombre.

JOTTER PAD

CROSSWORD

No.7,421 Set by QUARK



The eight unclued six-letter words form four linked pairs. The twelve-letter pairings form anagrams as follows: DIVER IN GREEN; DRAPES IN GOLD; JUMBLE RACKET; THE SECRET CUE. Solvers should identify the pairings and fit the six-letter words into the grid where possible.

ACROSS

1 Cancels, as telephone system not working? (5,3)
9 Interfered with pet dream, being roused (8)
12 Expand, putting river in for one to illustrate (9)
13 Label's description that is expressed in weight (3-2)
14 Teeth sometimes do; some bcome sharp (4)
16 Those who draw with difficulty irregular rule has produced (7)
19 Plants novice in important fielding position (7)
21 Savour the dance – not the last (4)
24 Going flat out (5)
25 Thin barley (not English) could produce complex situation (9)
28 Indicate the hour for the intervening period (8)
30 Sweet success? (6-2)

DOWN

3 Clear expanse (5)
4 I'm being sent up in body language (7)
6 Regarding period of work, get marching order (5,4)
7 Nice fish – rice dish (8)
8 Sits casually – about to eat? Order required (8)
11 Taking part in Emmy theatrical awards? That's pure fiction (4)
15 Always concerned with environment, continuously providing leaflets? (9)
17 Do 100 clues? Crazy! Causes teeth to gnash (8)
18 One who systemises – in secret? (8)
20 Rock bed that's under the window (4)
21 Scene in which performers are frozen stiff? (7)
26 Topped bean right and left (shaped like a kidney) (5)

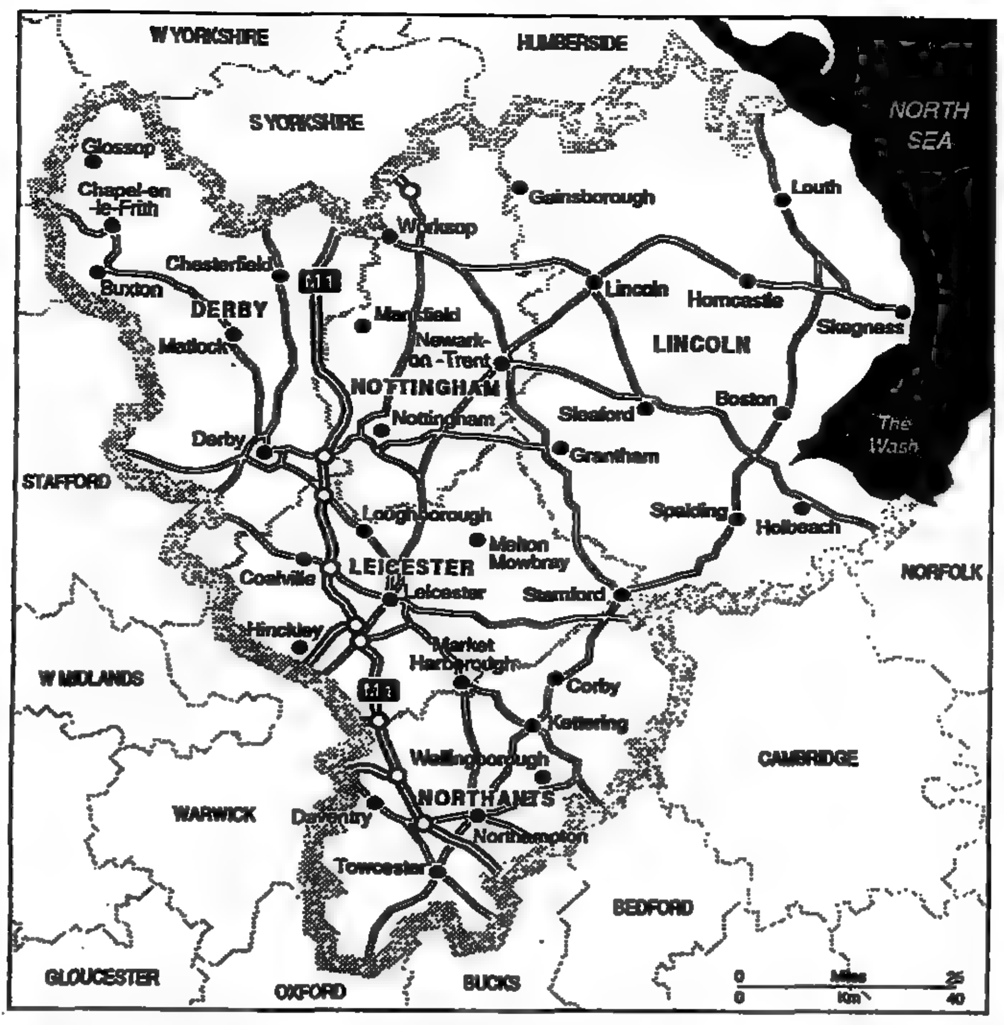
The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 29.

EAST MIDLANDS

Monday December 17 1990

After a period of rapid regional growth during the 1980s, the strongly diversified economy of the East Midlands is now facing leaner times, reports **Paul Cheeseright,** Midlands Correspondent

Strain starts to show



THE East Midlands, which had enjoyed the fastest regional growth in the UK during the 1980s, now faces, at best, the familiar problems of economic downturn and, at worst, the battering of recession. The region, which had done well from the Thatcher years, faces leaner times under Mr John Major.

Just how lean depends on the area, for there is no uniformity about the East Midlands. This is a region which is not a region. It has no homogeneity; rather, it is patchwork of counties pulled together for administrative reasons. Derbyshire, Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire have little in common and frequently little interest in each other. Northampton folk find it easier to reach Birmingham or London than Nottingham.

It is true that there is a fabric of organisations which think regionally: the Confederation of British Industry, the Engineering Employers' East Midlands Association, East Midlands Electricity. But for the most part, towns, counties and companies pursue their own local concerns.

The concomitant of this tangle of local political and corporate activities is a strongly diversified economy. No single sector assumes the economic importance that, for example, the automotive industry has in the West Midlands. Metals, minerals, chemicals, engineering of everything from jet engines and power generating sets to textile machinery, textiles, footwear, agriculture – lots of agriculture – food processing, distribution, printing and a growing services sector all testify to a varied economy.

No single town dominates the region in the sense that London acts as a focus for the whole of the south east of England or in the sense that Birmingham overshadows the West Midlands. Nottingham may see itself as the centre of the region, but Derby, Leicester, Lincoln and Northampton are significant centres in their own right. The downside of this is that no town is sufficiently large to develop into a financial centre of much more than secondary importance.

Nor do large employers dominate areas. While there is no denying the significance of Boots, the pharmaceuticals group, to Nottingham, or Rolls-Royce to Derby or the clutch of GEC factories to Lincoln, the East Midlands is a region of small and medium-sized companies.

The economy started to slow in 1989 when the growth of gross domestic product slipped to 3.7 per cent from 4.7 per cent in 1988, 6.4 per cent in 1987, 4.0 per cent in 1986 and 5.5 per cent in 1985. Likely growth this year, despite the fact that the regional economy held up better for longer than in other parts of the UK, will be a modest 1.3 per cent, rising to 2.8 per cent in 1991, in the view of Business Strategies, the regional forecasting group.

Businessmen state that "it now feels like the early 1980s all over again" as declining order-books and heightened pressure on margins reduce their inclination to make new investment and turn confidence into uncertainty. The rate of business failures in the East Midlands is running over 80 per cent higher than in 1989. Small companies are having problems with their cashflow. According to the Northamptonshire Enterprise Agency, new business is finding that banks are demanding a one-to-one ratio of debt to equity instead of three-to-one in what now look like the halcyon days of 1987-88.

Notwithstanding the lay-offs at BREL, the railway equipment group in Derby, the rate of unemployment is going up only slowly. But companies seem to be in an interregnum: orders and sales are going down, unit costs are increasing and stocks are beginning to mount, but the stage has not been reached when manpower is being reduced on a savage scale. According to the November edition of the CBI-BSL regional trends, capacity utilisation in both the East Midlands and Scotland is holding up better than elsewhere in the UK. But the harsher climate has implications which go wider than immediate commercial concerns.

Springing out of the changing fortunes of the domestic economy, it is possible to detect three disparate areas where activity is becoming more intense or where existing problems are made more urgent because of the economic downturn.

The first of these is inward investment. While the East Midlands generally has probably received a fair portion of central government relocations and a trickle of migrating companies from the south east of England, it has emphatically failed to attract as many overseas investment projects as its better organised neighbour, the West Midlands.

Tranquil Derbyshire scene: bandsmen playing near the Hobbit Inn at Monyash Village Green.

These projects, however, provide new stimuli for growth. The search for them has been encouraged by the decision of Toyota, the Japanese group, to build a car production plant on an old airfield near Derby. Certainly, the Department of Trade and Industry, through the Invest in Britain Bureau, and latterly through the English Unit, has sought to take the region to a wider investing public overseas.

But the East Midlands has neither an active and subsidised promotional organisation like the West Midlands Development Agency nor a wide array of financial inducements for the footloose foreign company.

The CBI is leading an attempt to bridge this gap and is finding support in the private sector and among public bodies like the Leicestershire County Council. But in Nottingham and Northampton, at least, there are reservations. The authorities in Northamptonshire do not wish to be linked to the East Midlands. Those in Nottingham prefer to follow their own line. Regional diversity is clear, regional identity is shadowy.

Second of the areas where the downturn makes existing problems more serious is the inner cities and the districts affected by the departure of coal mining. There are no urban development corporations in the East Midlands to take the strain. Local authorities spend, but within increasingly tight limits.

On the assumption that raising the general prosperity of a city by, for example, improvements in its infrastructure, will help the distressed areas, there is increased attention being paid to joint public sector-private sector activity.

Thus, Nottingham Development Enterprise has concerned itself with, among other things, the proposals for a new rapid transit system and city centre management; Lincoln City Council is seeking central government approval for a joint venture urban development company with the private sector – like Birmingham Heartlands; business and council in Derby have commissioned a consultant's report on future city development; North Nottinghamshire Training and Enterprise Council is laying the stress on enterprise as a means of finding a new economic equilibrium after the departure of coal mining.

The third area is political. Stimulated by the economic situation and, in the urban areas, the poll tax issue, the political pace is quickening as the next general election approaches. There is much to play for.

Generally, the Labour hold is stronger on the local authorities than in the parliamentary constituencies, yet the traditional urban-rural divide does not work in the East Midlands. The rural areas, the shires, remain a Conservative stronghold. But the Conservatives also hold urban seats as a result of the 1983 election, although ground was lost in 1987. Of 42 seats in the East Midlands, the Conservatives hold 31, and of these 27 are held with majorities of more than 10 per cent.

The swing of political events suggests that, in urban areas, Labour should strengthen its majority in seats narrowly held andwrest control of others. Unless, of course, there is a Major miracle.

ON OTHER PAGES

Northamptonshire — for centuries a centre for shoe-making trades — is the quintessentially English county, predominantly rural in flavour with market villages, leafy by-ways and stately homes. Pictured above is the River Nene at the village of Denford.

INWARD INVESTMENT

Uneven distribution

MENTION inward investment in the East Midlands and the first word that springs to the lips is Toyota. To be sure, it was a marked success for the region in general and Derbyshire in particular that the Japanese motor corporation agreed to come. Such large projects are highly prized and there is fierce competition from country to country, region to region, to obtain them.

But the region attracts less inward investment than its position in the British economy would suggest it should. At the Department of Trade and Industry, it is noted that the East Midlands' share of the gross domestic product is 6.5 per cent but its share of overseas investment is about four per cent.

The official figures show that there are 268 foreign companies in the region. Some are long-established: Caterpillar, for example, relocated a British plant to Daventry in the 1940s. Others are new operations, some are capital acquisitions. Nearly half of the companies are from the US.

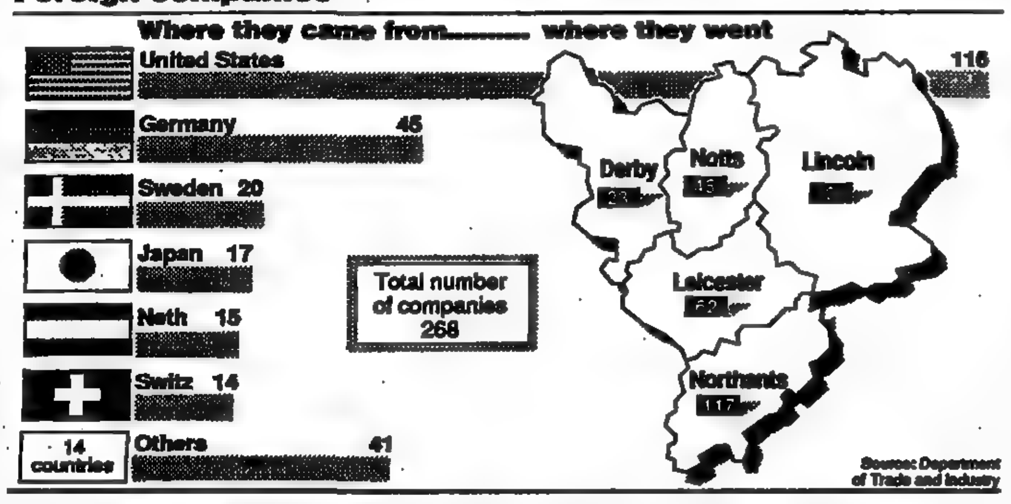
The distribution is uneven. Presumably reflecting the geographical tilt in the national economy towards south-east England, there is, in the location of the companies, a distinct bias towards the southern part of the East Midlands: notably Northamptonshire but, to a lesser degree, Leicestershire as well.

Using Invest In Britain Bureau figures, Coopers & Lybrand Deloitte, consultants, has worked out that the total value of overseas inward investment projects in the East Midlands between 1984 and the end of the first half in 1990 was £1.1bn.

But this figure is distorted by the inclusion of £704m for Toyota, taken as one entry into the table for 1989, when the spending will be spread over several years. With the Toyota figure stripped out, the total is reduced to £396m.

Over the same period, however, the West Midlands, to which the flow of funds has been more regular, amassed £1.4bn of overseas inward investment projects. The East Midlands accounted for three, four or five per cent of UK inward investment during each of the years between 1984 and the first half of 1990. But the West Midlands, after accounting for four per cent in 1984, subsequently recorded annual percentages ranging between 18 and 27 until 1990.

Foreign companies



Investment in the East Midlands from other parts of the UK is more difficult to quantify. Certainly there has been some private sector relocation by companies seeking space and relative freedom from the congestion which has become increasingly associated with the south-east. And there is little doubt that towns such as Corby and Northampton have been a magnet to expanding companies.

The southern part of the region was caught up in the general expansion of the south east economy during the 1980s, but the notion of a corporate mass migration seems based more on chatter than fact.

That said, the region has had its fair share of relocations by government bodies engaged in both decentralisation and the search, given a greater degree of self-control over running costs, for a cheaper existence than that obtainable in the London area. The moves of English Heritage and part of Inland Revenue to Nottingham are cases in point. Apart from a few locations like Northampton, where the pressure for development has been intense and where local politicians would like a breathing space, there is a continual appetite for new investment, from both home and overseas. The reasons are standard.

The official explanation is that inward investment will help to ensure that the region is at the forefront of technological advance, that it will fill gaps where unemployment is difficult, that more generally it provides jobs and that finally, it is a stimulus to new management techniques.

But the region has problems in attracting it, despite its prosperity, its easy industrial relations and, within the British context, its straddling location between south east and the north. It tends to be overlooked in the scramble. As one official put it, "Where is it and what is it?"

There are two factors at play here. The first is that the aid packages which can be offered as inducement to potential investors are limited. This is not necessarily decisive: companies are generally interested first in location and labour availability and only second in subsidy.

The second and more significant factor is that the region has not been sold to potential investors in the same way as, say, the West Midlands, Scotland or Wales. As the East Midlands Region of Chambers of Commerce noted: "At present, the East Midlands is one of the least directly publicised of all the regions in England. In many other parts of the UK regional development organisations are active in presenting their region's image. They receive financial support from central government."

There is no equivalent in the East Midlands although the Confederation of British Industry is now behind a movement called the East Midlands Awareness Campaign, soon to be called the East Midlands Investment Campaign.

Meetings have been held in the five county towns. York Consulting of Sheffield is working up a strategy which will concentrate not only on inward investment but also on the identification of specific projects which will plug gaps in the infrastructure.

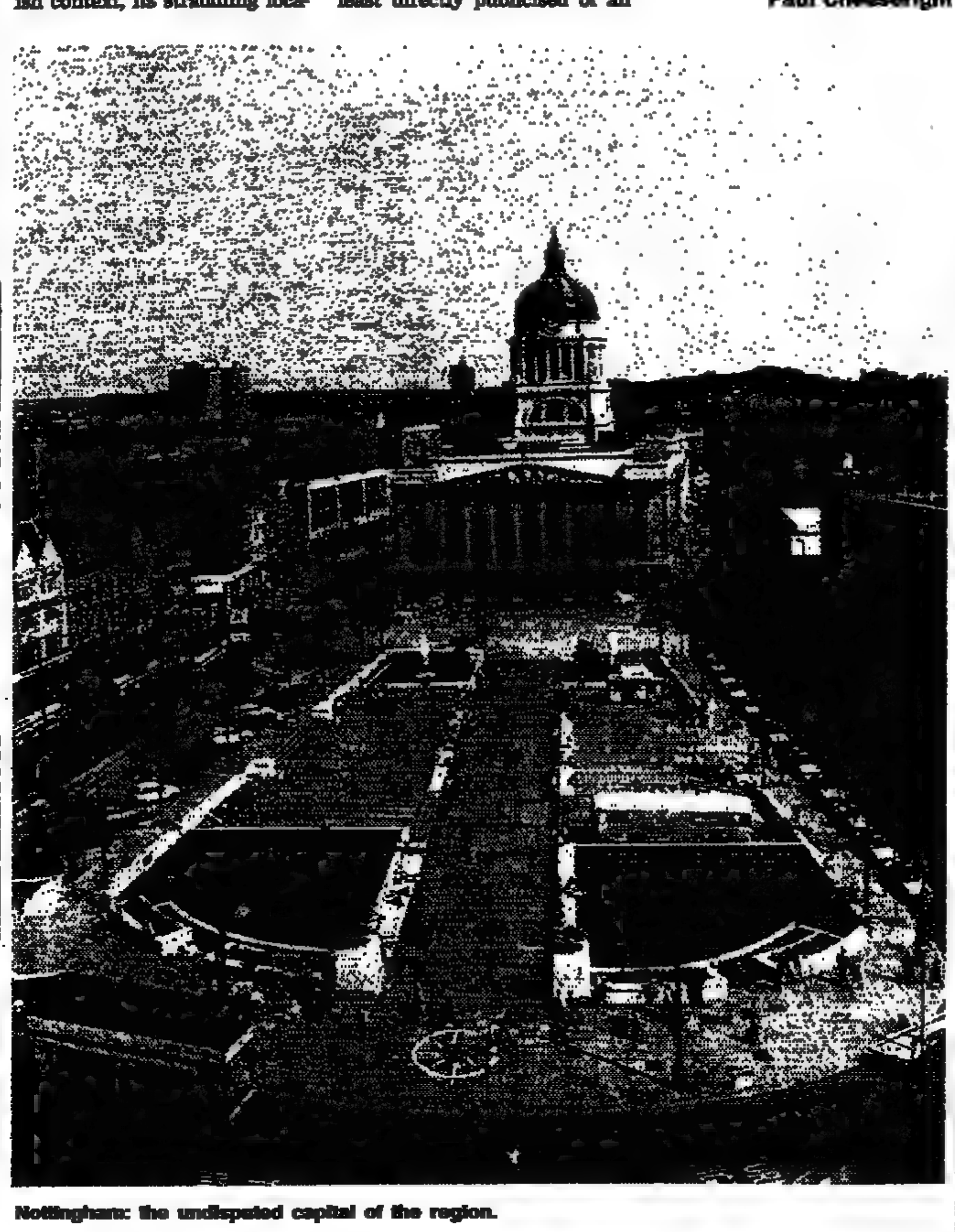
How successful this effort will be is open to question. It is difficult to pull together five counties which frequently have little in common. Northamptonshire leaders have made clear they want nothing to do with it: "we can see that our economic future is much more closely linked to the south east," said one senior official.

In Nottinghamshire the attitude is at best ambivalent and there is no inclination at either city or county level to subsume local efforts to attract new business in a wider campaign. Leicestershire, on the other hand, is enthusiastic.

Mr Philip Hammersley, chairman of the CBI's regional council, acknowledges the existence of local jealousies but observes that the focus of the effort is on the private sector and claims a large measure of support across the board.

"There is some fear of trying to impose a super regional organisation which will push everything out of its way, but nobody has said anything of the kind," he commented.

Paul Cheeseright



Nottingham: the undisputed capital of the region.

PROPERTY MARKET

Taking a breather

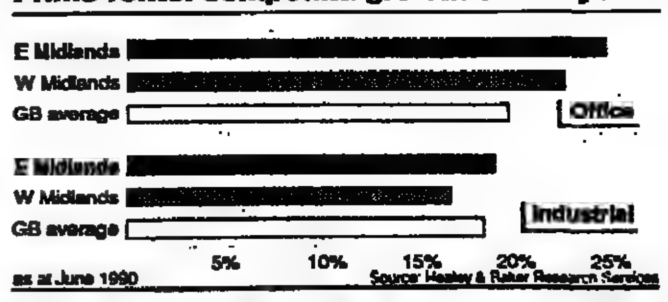
The region has undersold its attractions, suggests CHRISTINE MOIR

THE Henley Centre may predict that the East Midlands will be one of the four regions with above-average population growth this decade (the others are East Anglia, the south-west and, inevitably, the south-east). But, notwithstanding an 0.5 per cent a year increase from its present population of 3.93m, the East Midlands remains a secretive part of Britain, not ready to flaunt its attractions like its more extrovert neighbour, the north-east.

Thus, while Nottingham is the undisputed capital of the region – and has just been voted the city with the best quality of life in Britain – it shows little sign of boom or even bustle. Perhaps this is because it is taking a breather after a period of outstanding growth, but it may be a rather long time out.

Just before the property market shut down across the country with the onset of recession early this year, the city attracted a major division of the Inland Revenue, which rented 300,000 sq ft of central office space. But such a transaction is by its nature out of the ordinary and the 50,000-1m sq ft of new offices under construction or proposed at present look like having few takers.

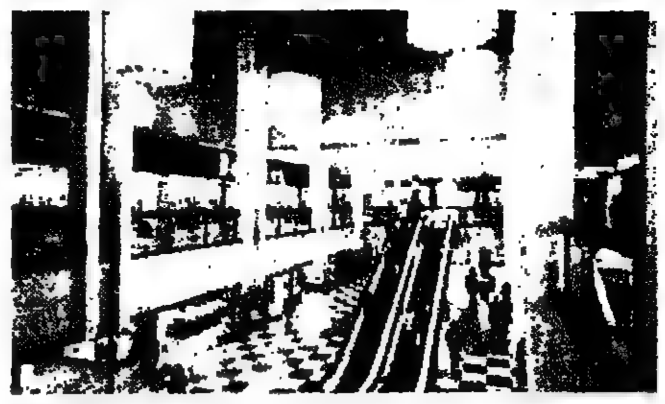
Prime rents: compound growth over 5 years



A similar lassitude has overtaken the retail sector with the council's hopes for east-west expansion of the city centre unlikely to be fulfilled for some time. The north-south axis along Clumber Street is long-established and anchored by two relatively successful shopping centres – the Victoria Centre owned by Capital and Counties and Broadmarsh, owned by Postel. Both have plans for refurbishment and possible extension, but not yet. Meanwhile, piecemeal refurbishment takes place in fits and starts along Clumber Street itself.

Pedestrian-flow east and west is sparse, with little to attract shoppers off the main pitch. And prospects for change were dashed some months ago when Grosvenor Square Properties publicly cancelled its proposals for a 90,000 sq ft specialty shopping centre on the old Pearson department store location. That is now a level 25-acre site which hardly improves the appearance of this part of town. Following Grosvenor's decision, other proposals for shopping centres were quietly monthballed.

Nottingham's retail problems do not seem as acute as those of Leicester, however, where the Fosse Way centre on the city fringe has attracted shoppers and retailers away from the centre. Opinions differ strongly among estate agents as to whether the centre can fight back, but Healey & Baker which is joint agent with Weatherall Green & Smith on the Shires Centre at the end of the main Gallowtree Gate shopping pitch, is quietly confident that it will be nearly fully let in time for its April 26 opening date next year. The Shires, a joint venture between Imry Merchant and the city council, is a 500,000 sq ft scheme with two main stores (already let to Debenhams and Lewis's) plus 74 small units.



Northampton's Grosvenor Centre: air-conditioned shopping facilities on two levels.

The argument as to whether Leicester centre will still be under-shopped once the Shires is open still rages as Arlington Securities painfully embarks on the piecemeal site assembly for its proposed redevelopment of the Haymarket and Lewis's old store. But that 750,000 sq ft project is still some four years off and meanwhile the fringe-of-town developments continue. These so-called retail parks are causing headaches for both civic fathers and property entrepreneurs alike because they appear to be able to escape planning controls.

Originally, planners encouraged the relocation of space – consuming and unattractive semi-retail, semi-warehouse operations such as DIY and fitted kitchen centres, to fringe sites with limited goods permissions. In areas where the city centres were not strong magnets, however, this soon got out of hand.

Retailers which would otherwise have found a natural home in the high street were attracted to the retail parks by their lower rents. Moreover they soon found that the limitations on the planning permissions stood a good chance of being overturned on appeal in this age of government-sponsored competition.

The recent white paper on the environment offers some hope of closing the loopholes with its concern about the effects of traffic flows into residential areas. But in Leicester and Derby much damage has already been done and estate agents believe it will be difficult to redevelop the city centres without either massive over-shopping or brutal disruption to shopping patterns which have even seen Marks & Spencer move into retail parks.

Mr Angus McIntosh, the Healey & Baker partner responsible for research, believes that when the recession lifts, the retail sector will be the first to recover. He is also confident of the region's overall prospects as an alternative population centre for those disaffected by the congestion of the south-east. But he concedes that in the short term there will be a dramatic drop in demand.

Others look to industrials to lead the way out of a slump, as well as making the best showing during it. The region had the most marked growth in industrial rents of anywhere in the UK in the year to June, with prime rents advancing by 21 per cent, according to Mr McIntosh's statistics. There has even been some further advance this autumn.

Toyota's recent choice of Derby for its new European car plant is a further indication that major manufacturers continue to see the region's attractions. That can only have useful spin-offs in the smaller centres and among component suppliers.

But the Toyota move is an exceptionally bright note in what is otherwise a dull tapestry. And certain pockets and sectors suggest genuine cause for concern. Part of Derby's attraction for industrialists is that, notwithstanding the recent above-average rental growth, prime factory rents of £4 a sq ft are still highly competitive against, say, Bristol at £6. If the recession persists, that margin may narrow or become stale news – and that would not be good news for a region which needs to sell its attractions.

LABOUR AND TRAINING

Skilled workers in demand

SKILL shortages remain in the East Midlands, despite the rise in unemployment. This is apparent from the surveys which the developing Training and Enterprise Councils have been carrying out in their local areas.

Figures published in November by the Department of Employment showed that the regional rate of unemployment at 5.3 per cent remained lower than the national average of 6.0 per cent. Indeed, the unemployment rate in the East Midlands was lower than in seven UK regions and higher only than the rates in East Anglia and the south east and southwest of England.

The number of jobless, seasonally adjusted, crept up from 67,900 in January to 75,600 in October. The stock of unfilled vacancies at job centres was falling by 400 each month, on average, to last October, while the number of vacancies notified to job centres over the same period was dropping by an average of 600 a month.

Yet the broad totals disguise sharp disparities within the region. Unemployment may be less than two per cent in the rural areas around Northampton but it pushes up towards 30 per cent in some of the Nottingham inner city districts and in parts of the old coal mining areas of Mansfield.

For all that, the prospects for an increase in the number of employed are less than rosy. Using the Nottinghamshire Chamber of Commerce survey as a barometer, the proportion of companies intending to increase their workforce fell to 29 per cent by September from 34 per cent in June, while 12 per cent of companies expected to reduce it, against seven per cent in June.

Nevertheless, a third of companies in the survey are finding difficulty in recruiting the personnel they require. This is not abnormal – research by the Derbyshire County Council and one of the local TECs established that over 30 per cent of companies in the south of the county had recruitment problems and expected them to continue.

A Training Agency survey in Nottingham's inner city found 60 per cent of companies dealing with skill shortages. Another survey by the Lincoln City Council found over half the companies had recruitment problems.

The Nottingham inner city survey found a shortage of textile machinists, clerical and maintenance engineers, following the general pattern for Greater Nottingham.

Lincolnshire TEC has drawn attention to the problem of drawing into the county enough teachers, solicitors and accountants; it has observed recruitment problems in the engineering, printing, clothing and electronic sectors.

In south Derbyshire, small companies are having bigger problems than large companies; at professional level, the difficulty was in finding civil and mechanical engineers and at the technical level there was a need for, among others, laboratory technicians, computer programmers, roofers, plasterers, metal plate workers and welders.

These problems are not unique but probably have been exacerbated in the East Midlands by the surge of business which took place in the late 1980s and is only now beginning to taper off. In the longer run, the region faces the problem of nurturing growth at generally a faster pace than other UK regions while contending with the nationally acknowledged shift in the demographic balance.

Some flavour of this shift comes from Northamptonshire County Council projections which see the number of those between 45 and retirement age rising from 102,100 in 1988 to 133,700 in the year 2000, but the number of those between the ages of 16 and 24 declining from 81,700 to 70,400. A reduced number of school leavers points to the need for the recruitment of both older workers and more women.

All areas face the now-familiar problem of a shortage of qualified managerial and technical staff

Reports from the Greater Nottingham TEC show that most employers do not have any recruitment policy which takes into account the changing nature of the labour force. In that particular area, about 49 per cent of jobs are held by women and the Nottinghamshire County Council expects that 80 per cent of all new jobs will be taken by women.

Alan Harper

Statue of a Corby steelworker in Northampton

But the Lincoln City Council has found that three-quarters of companies expect to recruit people with the required skills who are already in work; given the expected and steady growth of the regional economy after the current downturn, that gives little hope of any relief to skill bottlenecks.

All of this points to greater investment in both the private and public sectors on training. Under the terms of the Government's reorganisation of the national training structure, the responsibility for finding a way through these thickets is being devolved to local Training and Enterprise Councils where the main focus of control will be businessmen.

Seven TECs are planned for the East Midlands: south Derbyshire and north Derbyshire, Leicestershire, Lincolnshire, Northamptonshire, north Nottinghamshire and Greater Nottingham. Taking these TECs through the process of establishing a board and staff, working up a corporate plan and negotiating the funding from central government has been slower than in the West Midlands. Only one TEC, that of north Nottinghamshire, has started operations and, certainly, it will be some years before any impact by the TECs is visible.

There has, however, been fertile growth in the region of organisations set up to supplement the internal skills of companies with contacts, expertise and advice on more effective competition in the national and international markets.

The establishment, for example, of European Information Centres in Nottingham and Leicester not only provides companies with a service of information about European Community directives, but provides a means of access to companies in continental Europe.

At the same time educational establishments are increasingly making their facilities available to business. Thus, for instance, Nottingham Polytechnic not only provides counselling on business start-ups but sells consultancy services which spin off from the work carried out inside the institution. Loughborough University provides a technology centre. At the local authority level, financial help and advice comes from bodies like the Northamptonshire Enterprise Agency.

Paul Cheeseright

ENGINEERING

Strength in diversity

WATERFALL was the analogy chosen by Mr Nigel Chubb to illustrate the state of the East Midlands engineering industry – "you are going down it, but you do not know where the bottom is."

He is the director of the Engineering Employers' East Midlands Association and his diagnosis of where the industry sits in the economic cycle is based on the regular meetings held by the association, county by county, to exchange information. But the downturn came later in the East Midlands than in other regions.

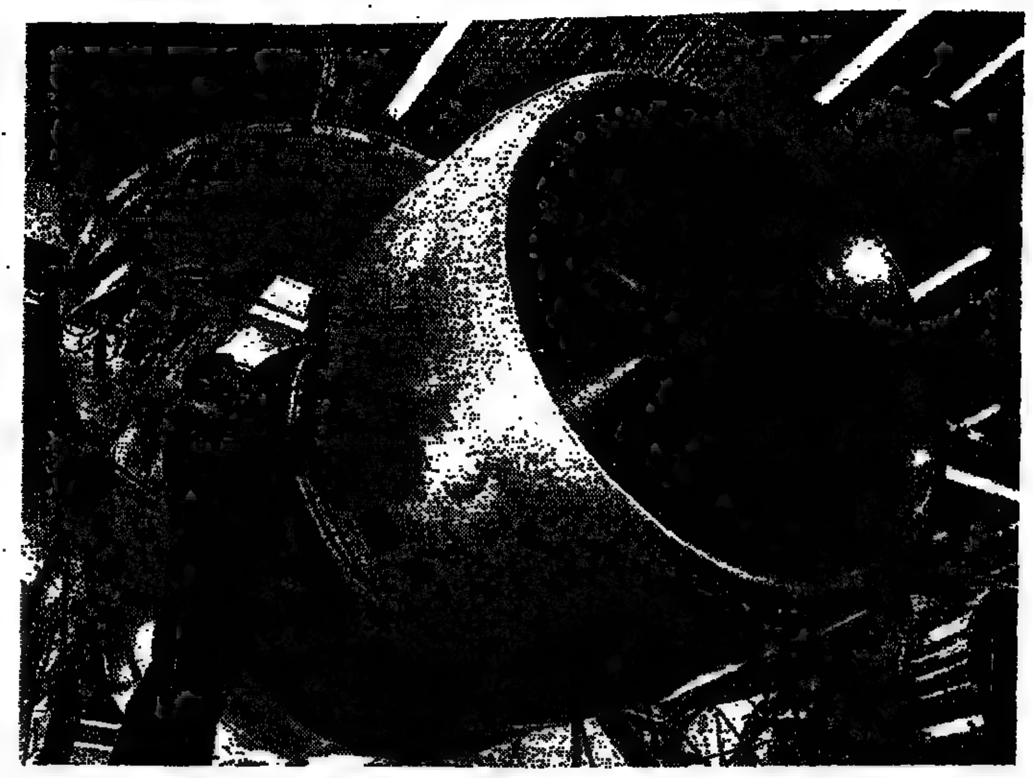
By the summer it had become clear from surveys carried out by the Confederation of British Industry and the Chambers of Commerce that confidence was beginning to droop as order-books thinned, but the turning point seems to have been the summer holidays.

That said, the November CBI-BSL regional trends survey noted that with Scotland, the East Midlands had the highest level of capacity utilisation in the UK. While it is going too far to say that the engineering sector carries the East Midlands on its back, it is the most important single area of employment in manufacturing which accounts for a third of the working population, higher than the UK average of 24 per cent.

But the great strength of the East Midlands engineering sector is its diversity, "making everything from knitting needles to nuclear power stations," as regional advocates like to say, and the relatively small number of very large operators. Pre-eminently, it is a region of small and medium-sized companies. If the automotive sector becomes ill, then the whole region does not catch a cold, as is likely to be the case in the West Midlands.

In 1989, engineering output (at 1985 prices) came to £2.9bn, having surged by more than 12 per cent from the 1988 level. This year, according to Business Strategies (BSL) output is likely to show a growth of 3.6 per cent, its lowest increase since 1985, to £3.009bn, and may rise to £3.099bn in 1991.

But BSL points out that these estimates may change slightly, largely because the downturn came later than most expected; this would suggest that recovery will be retarded. Indeed, few expect recovery until towards the end of 1991. Although statistically the engineering industry is seen as a unity, this is far from the case on the ground. There is a crescent of activity, based on the county towns, stretching from Northampton to Retford in Nottinghamshire, flanked by the two stars of Lincoln and Newark on the north eastern side of the region.



Rolls-Royce, with its aero engines, is the best-known employer in Derby

While in the West Midlands, the Birmingham-Black Country conurbation acts as an obvious hub, in the East Midlands each county has its own particular pull. In Northampton, the two largest engineering companies are Express Lifts and British Timken, the bearings group, surrounded by a host of electronics, mechanical engineering, printing machinery, pumps and shoe-making equipment companies.

In Leicestershire, there is a machine tool sector based on Jones & Shipman and Bridgeport Machines, and lighting manufacture represented by Thorn, while British United Shoe Machinery provides further diversification. In Loughborough, there is a concentration of Hawker Siddeley group companies: Brush Electrical Machines, Brush Switchgear and Brush Transformers.

Rolls-Royce with its aero engines and now enlarged by the 1989 acquisition of NEI, the power-generating equipment group, is the best-known employer in Derby, a centre also for BREL, the railways equipment manufacturer, and Qualcast Garden Products, the lawn-mower maker.

In Nottingham, a city traditionally associated with Boots, the pharmaceuticals group; Raleigh Industries, the bicycle manufacturer, employs around 1,000 people; while GPT, set up by GEC and Plessey, makes telephone exchanges.

Lincoln is a stronghold of the GEC group, through Ruston Gas Turbines and manufacturing activity running from diesels to semi-conductors and valves. It is also the home of Ruston Bucyrus, with its earth-moving equipment and Rose Bearings, a Japanese investment. At Newark, Dresser Pump Division has its UK operations and RHP Bearings has its industrial precision and aerospace divisions.

To the extent that it is possible to generalise from the diversity of activities and the varied markets in which the myriad companies operate, the reports coming into the Engineering Employers show that commercial conditions are the worst since the 1980s recession.

Redundancies, although not yet on any wide scale, are running at double the rate of 1989. For the most part, though, the slack is still being taken up by cutting the number of shifts and reducing overtime. One reason that redundancies are not yet widespread is that there was, until, early 1990, a general shortage of capacity. On top of that there is fear of entering a period of high labour turnover and a general reluctance to throw away, by redundancy, investment made in training. However, Mr Chubb has spotted a shift in concerns among engineering employers over the last year. In 1989, the pre-occupation was with stability of exchange rates. That has now been partially achieved through UK membership of the exchange rate mechanism of the European Monetary System, although at too high a level for the taste of many companies.

It is pre-eminently a region of small and medium-sized companies

Now, the main concern comes from being caught up in the vortex of high inflation with its pressure on wage costs and high interest rates with the uncertainty they bring to investment plans. The effect of these two factors is to put pressure on margins in the domestic market, a point which is exacerbated in the export markets when the factors are combined with the relatively high exchange rate.

The economic downturn has eased the pressure on the labour market, where, during the late 1980s, there was the customary clamour for skilled personnel. The downturn is also expected to work its way through to the level of wage increases, which, through the East Midlands engineering sector, have been running at around nine per cent.

Engineering companies in the region know that they are in the stop part of the stop-go cycle. But there are counter-balancing factors which in some areas will lessen the impact. They spring from new investment which will enhance the corporate infrastructure.

The arrival of Toyota, the Japanese motor group, at Burnaston in Derbyshire, is a case in point. While there are fears among Derbyshire employers that Toyota's eventual need for 3,000 employees could suck personnel away from other employers, the presence of a new car manufacturer should give a boost to the component manufacturers not only in the West Midlands, their traditional base, but also in the East. And it was significant too that in the summer, when the market was turning, a survey by Price Waterhouse, consultants, and the Nottingham Business School found that confidence was holding up better in the county than elsewhere in the region.

The decision by Phoenix Electric, the Japanese group, to site its European light manufacturing at Coalville in Leicestershire, represented a further step away from coal mining for the district into a higher technology commercial environment. The fact, too, that British Gas is going to centre its research and development on Loughborough is equally a long-term boost for the science-based industry of the region.

For the moment though, East Midlands engineering eyes are looking downward, trying to see the bottom of the waterfall. The longer term stimulus will only be visible when eyes again are lifted to the horizon.

Paul Cheeseright

Imports hit footwear sector

FOOTWEAR has long been synonymous with the East Midlands. The industry employs around 15,000 people in the region.

The biggest concentration of exporting companies is in Northamptonshire – 25 of the 61 businesses listed in the British Footwear Manufacturers' Federation exporters' directory are based there.

Another seven are located in Leicestershire and three in Nottinghamshire.

Northamptonshire is also the home of the 500-member Shoe and Allied Trades Research Association, SATRA. Based in Kettering, the association is a centre of high-tech efforts to reduce the amount of labour by using computer-aided design and manufacture. It expects to spend £1.4m on research this year.

SATRA's efforts are badly needed. In September alone, the industry lost almost 1,000 jobs, according to the British Footwear Manufacturers' Federation.

The chief culprit is growing imports, whose volume has grown by 31 per cent since 1982. Last year import penetration reached 66 per cent, in volume terms.

At one time, Italy was seen as the biggest threat. But the shift to non-leather shoes accompanying the leisurewear boom, and to sports footwear in particular, has moved the focus of concern to low-cost producers in the East Asia.

Some East Midland optimists argue that the retail squeeze could see UK consumers going for longer-lasting, higher quality footwear offering better value for money - which would favour the regional industry at the expense of imports.

Asian imports have soared by 50 per cent since 1982. Imports from have Taiwan doubled. Import penetration in textile-uppered footwear reached 86 per cent in volume terms last year.

The reasons are not hard to find. The average price of footwear leaving UK factories last year was almost £8. Yet importers' prices averaged little more than £5 a pair.

Some producers have fought back by investing in new technology. But only a few companies, such as FII (formerly Footwear Industry Investors), are big enough to be able to afford the necessary investment.

FII is the UK's second biggest footwear manufacturer and a major supplier to Marks & Spencer. It is regarded as one of the most efficient manufacturers with profitability well above the industry average.

Reckoned to be the third biggest UK footwear producer, Northampton-based Burlington International was formed when its management bought 16 factories from the British Shoe Corporation in 1988. Since 1989 it has been strengthening its brand presence - it already had the Saxone name - by buying up mostly small, specialist, niche footwear producers.

Others are attempting to cut costs by assembling imported components.

Robin Anson

Case study in retail distribution

Food retailers lead the way

OVER the last few years, businesses have recognised the importance of efficient distribution in controlling costs in the run-up to the European single market.

The food retailers led the way. Asda, through its property arm, Gazeley Properties, established the largest purpose-built distribution centre in Europe – Magna Park at Lutterworth in Leicestershire.

Gazeley, set up in 1987, provides a comprehensive property service to the Asda group but also operates as a separate profit centre. At Magna Park it combines both functions.

The Lutterworth site, covering 500 acres on the former Sittewell airfield, had been acquired in 1986 by MFI, the furniture retailer which had merged with Asda.

After its subsequent split with MFI, Asda retained the site and obtained planning permission for a first phase of 4.2m sq. ft. in 1987. A year later a joint venture – the Lutterworth Partnership – was formed with the Church Commissioners for England to develop it.

To date, some 26m sq. ft. has been built with some 1.5m sq. ft. still available. A planning application, backed by the local and the county authorities, was called in by Chris Patten, the former Secretary of State for the Environment, whose successor, Michael Heseltine, is expected to reach a decision in January.

Suitable location is vital to the success of a distribution centre. John Duggan, Gazeley's managing director, refutes claims that Magna Park is in "the middle of nowhere." On the contrary, he says, "it is in the centre of everywhere".

Situated in a triangle bounded by the M1, M6 and M69 motorways, Magna Park is ten minutes drive from all three.

Birmingham and East Midlands airports are half an hour away by motorway and the ports of Hull, Ipswich, Felixtowe and Harwich are all within a 150 miles radius. The western end of the new A1-M1 link, due to open in 1993, will also be only ten minutes away.

Another important consideration in choosing a distribution centre is what Mr Duggan terms the "economic drive time" so that labour and vehicles are assured of doing a full days work. It is a waste of time and money and highly inefficient, he says, to send a truck and driver on a short journey where unloading is over by lunchtime and there is nothing to do all afternoon.

In addition to being well situated, the buildings themselves should be appropriately

Asda takes off from a disused airfield

designed for their purpose. They need to be very large – more than 100,000 sq. ft. with considerable height. Cubic capacity is as important as floor space. The buildings at Magna Park are fitted with the latest material handling equipment and the most modern computerised management information systems.

They are also designed to be visually attractive and to have a low density. To soften their impact some 200,000 trees have been planted in the area, including 50 acres of woodland which will be a public leisure and conservation area.

Magna Park's occupants include Asda itself with 900,000 sq. ft., Volvo Parts GB, Toyota GB, Panasonic UK, Avon Cosmetics, Aspro Nicholas and German food retailer Ald UK. Latest to sign up is BDH, the UK associate of the German Merck, which has paid £13.25m to the Lutterworth Partnership for a 183,000 sq. ft. warehouse including 20,000 sq. ft. of offices on a ten acre site on a design and build basis.

Rents at Magna Park are now at over £5 a sq. ft. with the highest at £5.25 a sq. ft. This compares with £2.50 a sq. ft. in the area for industrial space only two to three years ago.

Mr. Duggan says that he is receiving a stream of enquiries about Magna Park from both UK and overseas companies looking to set up or improve their distribution networks in the run up to 1992. Some of the tenants have chosen Magna Park rather than a continental distribution site, he claims.

While hoping for that phase two planning will be approved by the government, he says that if the space cannot be provided quickly in the UK, international companies are likely to go to Europe.

Like a number of other property operations set up by retailers, Gazeley is quite well placed to cope with the current troubles of the property market. Gazeley contributed £12.4mn to Asda pre-tax profits in the year to March 31, 1990, and expects a similar result from the current year.

One reason for this success, says Mr. Duggan, is that Gazeley pulled out of purely retail developments two and a half years ago to concentrate on distribution, industrial and office developments.

Gazeley has a development programme with a gross value of more than £1bn mostly in joint ventures. Its direct investment is "very small".

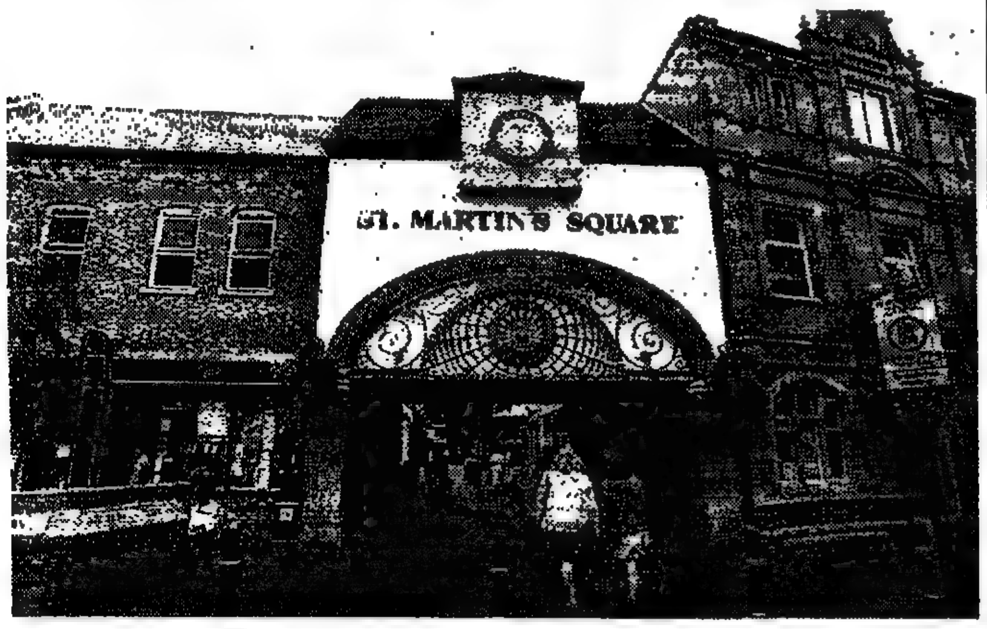
The company has a 50 per cent stake in the Burwood House Group as part of a joint venture with Arlington. The partnership, which includes 34 superstores valued at £375m and prominent town centre sites valued at £75m, has provided an income stream and liberated cash.

Funding for the new company was raised through lead bank Sumitomo and consists of £150m of equity, £250m of senior debt and £50m of mezzanine finance. Any future non-food retail development from Arlington, British Aerospace or Asda will be channelled through Burwood House.

In the medium term, besides servicing Asda's property needs, Gazeley will focus on distribution, says Mr. Duggan. He sees prospects for additional growth in the West Midlands and parts of East Anglia. He also sees considerable potential for high quality distribution facilities in Europe where the same changes in the distribution industry are taking place. He is looking at several potential sites in Europe on a joint venture basis. Gazeley will also continue with selected office and industrial developments. As Asda's in-house property arm Gazeley has built a great variety of projects – mostly in the leisure field – which have been required for planning purposes or have helped to acquire sites.

The company has, for instance, designed and built a library, art workshops and multi-screen cinemas and is currently working on a second large hotel. Its football stadium for Scottish Premier Division Club St. Jonstone was cited as a model of its kind in Lord Justice Taylor's report on the Hillsborough football ground disaster.

Anne Steadman



Modern shopping facilities: St Martin's Square, Leicester.

Picture by Trevor Humphries

View of St.Mary's, over the River Welland at Stamford, Lincolnshire. Historically, the county developed as an important agricultural area, especially of the drainage of Fens in the 17th century. Today many industries in the county are closely connected with farming: they include agricultural engineering, fruit and vegetable processing and fertilizer production.

An increase in financial expertise

NOTTINGHAM, according to its denizens, is emerging as the financial and professional capital of the East Midlands.

Some Leicester acolytes disagree, but there is growing evidence to support Nottingham's case. The regional offices of banks and accountancy firms are appearing in the town with increasing frequency – where they are not submerged in Birmingham, that is.

According to Mr Victor Semmens, deputy senior partner of Evershed Wells & Hind, the most substantial corporate law firm in the East Midlands: "When I first came here 25 years ago, Leicester was the stronger centre. I don't think there is any doubt now that Nottingham has taken over. For instance, most of the clearing banks are centred in Nottingham now."

Nevertheless, Nottingham is far from being a complete financial centre. It has only one venture capitalist of any size (3i), one merchant bank (Singer & Friedlander) and one corporate stockbroker (Chapman Trease, now part of Allied Provincial).

Local professionals put that down to Nottingham's status as what one calls "an overgrown market town". Its position means it has never played a part in the finance of trade.

Accountants and lawyers based in the region are accustomed to boarding a train and heading south in search of capital – usually to London rather than Birmingham, which itself has only a vestigial merchant banking and broking presence. Some want that to change.

"We'd very much like to see more substantial commercial brokers and merchant bankers, and competition for 3i," says one.

These prayers may be answered, but not soon. Merchant banks and brokers are facing a squeeze on their profits that makes investment difficult to mount, particularly when the flow of corporate finance deals waiting to be done in the East Midlands is slowing down, as elsewhere.

County NatWest, for instance, says it is sounding out the market in Nottingham at the moment, but does not expect to set up in the town until 1992, if at all.

Derby, the region's third centre, sits uncomfortably alongside Nottingham, neither close enough be served by Nottingham-based professionals nor far enough away to generate its own financial centre.

Of the top accounting firms, only KPMG Peat Marwick, with 65 staff, is represented in the town. Pannell Kerr Foster, a second tier national firm, is the only other firm of any size. Other accountants watch and ponder from their Nottingham strongholds, but have yet to take the plunge.

"It's only half an hour in the car, but to some clients it might as well be 300 miles," says one accountant. "We've often thought about going there. But getting people in London to agree the investment is not easy: they always say resources are scarce."

Peat was followed into Derby by Wells & Hind, before the law firm merged with Birmingham-based Evershed 18 months ago. But there are also departures: Lloyds Bank has recently disbanded its local corporate branch.

Meanwhile, the growth of financial expertise in the East Midlands, stimulated largely by management buy-out activity, means that the local centres are at least far more self-sufficient than in the early 1980s.

Mr Roger Cole, who took over 3i's Nottingham office this year after working in the more developed centres of Manchester and Edinburgh, says private company deals of all sizes can be arranged and financed locally. "I haven't been aware of a shortage of finance or professional skills, and that was a pleasant surprise to me."

Public company transactions, however, gravitate towards London.

Meanwhile, the work on the desk of the typical East Midlands corporate finance professional has changed in character dramatically over the past year. The diverse economy of the region may have lessened the impact of the economic downturn, but there is still plenty of corporate rescue or insolvency work to be done.

Mr Roger Pedley, managing partner of Peat in Derby, says: "Boom or slump, the world seems to need us." His office is doing three or four times as much insolvency and corporate recovery work as it was a year ago, he says.

Mr Roger Cole of 3i says MBOs are continuing, but are of a different character: "We are seeing holding companies failing, and leaving attractive operating companies for potential MBOs," he says. One such recently handled by 3i was the buy-out of Denby Tableware, part of the defunct Coloroll group.

Richard Waters

A2

Asfordby, the region's newest mine, offers low-cost challenge

Battle to stem coal import flow

MUCH of the size and high price of the coal contracts between British Coal and the power companies, National Power and PowerGen, can be traced to the East Midland mines, notably those in Nottinghamshire.

During the negotiations just over a year ago, it became clear that British Coal's strongest bargaining card would be Roy Lynk, president of the Union of Democratic Miners. The BC chief negotiator commercial director, Malcolm Edwards – so the story goes – would leave the negotiations to visit Downing Street with Roy Lynk to impress on the prime minister the dire effects that the power company demands would have on the UDM membership.

Whether or not the story is true is not important; what *is* undeniable is that had the power companies got their way on the amount of coal bought and the price they paid for it, many of the UDM mines would be squeezed perhaps to the point of premature closure.

The power companies and British Coal believe intervention on the part of the UDM came from the then prime minister herself.

A year later, those pressures can be looked at in some perspective with British Coal's East Midlands pits under the protection of the overall umbrella of the three-year contract with the electricity producers. Apart from Gedling and Clipstone, which produce high-quality industrial and domestic coals, the Nottinghamshire mines despatch their coals to two stations along the Trent – West Burton, Cottam and High Marnham.

Those attached to Ratcliffe can take some comfort – so long as the pattern of pit-to-power plant remains unchanged – that equipping of Ratcliffe with sulphur-removal (flue gas de-sulphurisation) equipment offers them a potential market stretching well into the next century. This makes burning the relatively high sulphur UK coal (when compared with import coals) less unattractive for Ratcliffe's owner, PowerGen.

Whether they can produce coal at a sufficiently low price to stay in business and keep Ratcliffe high on the power station merit order, is very much a different question. Thoresby will have no trouble if it can continue as it has over the past few years with operating cost below £1 a gigjoule, well below the selling price of £1.72 a gigjoule to the power stations and easily the cheapest producing mine in the country, year-by-year.

Wellbeck, Ollerton and Harworth are also among BC's prized producers. The conundrum for BC is that the Ratcliffe tends to be supplied by Nottinghamshire higher-cost mines than those serving the Trent stations. And, while the Ratcliffe market looks relatively secure from imported coal, those on the Trent are anything but secure. The Trent stations are among those perilously close to the expanding ports on the Humber at Immingham and Hull as well as the proposed Associated British Ports big coal importing facility close to Immingham.

The planned APB terminal is particulary threatening to British Coal because it can acccommodate the largest-sized ships carrying coal – Capesize ships. These enable the UK to benefit from direct shipments from South Africa, Colombia, the US and Australia. Apart from relatively small tonnages coming through Liverpool, most UK imports are trans-shipped at Rotterdam, a process which can add as much £9 a tonne to their landed cost.

The new Asfordby mine is due produce 4m tonnes of power station coal a year from 1992

Fortunately for British Coal, ABP, having obtained planing permission for the terminal in the summer, has subsequently gone quiet on its plans. It is believed to be looking for both backers and for guaranteed throughput at Immingham before it converts the planning permission into wharfs and cranes.

In particular, it is targetting National Power for support, partly because of National Power's large adjacent power capacity at West Burton, Eggborough and Drax and partly because National Power has not yet secured the sort of importing advantage enjoyed by PowerGen at Liverpool.

BC once sought to shelter behind the false comfort that the power stations were relatively distant from the ports ("You can't put the power stations on rails and drag them to the coast," in the words of one senior BC executive), and that rail transport is exceptionally expensive and road transport of large volumes of coal environmentally unbearable. It is now clear that millions of tonnes of coal can be cheaply and effectively barged from the Humber to all of these power stations. If – as seems inevitable – large volumes of imports do flow through the Humber, the very real prospects looms of a growing competition for the Trent business between Nottinghamshire and South Yorkshire, the one the home of the UDM, the other the heartland of radical Scargillism. There is little to chose bewteen the mines of the two areas, although some of the Nottinghamshire pits face a relatively short life.

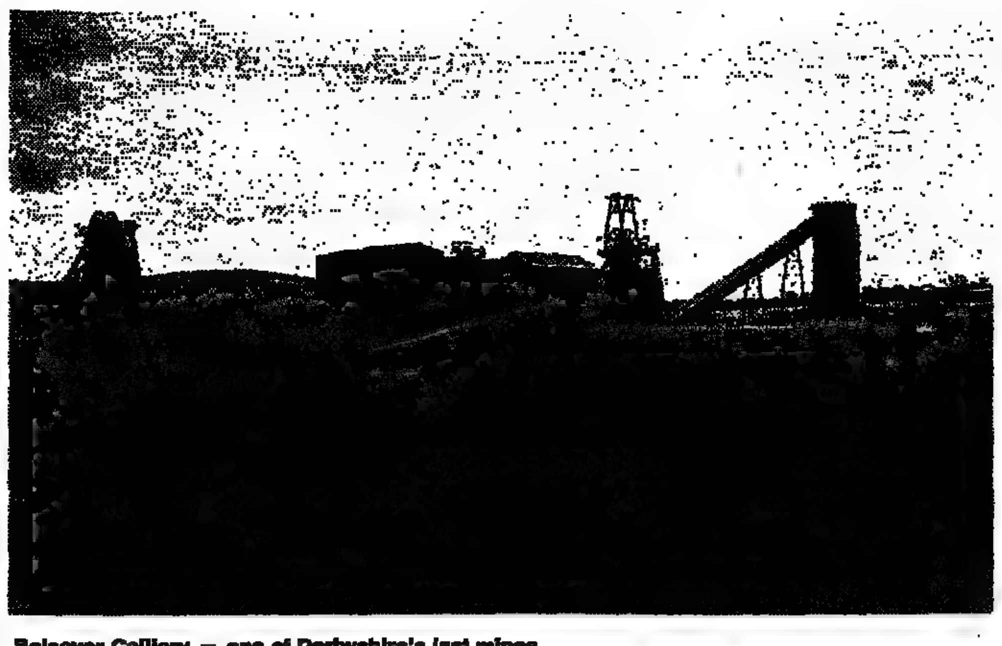
The problem for the South Yorkshire mines in 1989/90 was that, dogged by internecine industrial disputes, its productivity went against the national improving trend and deteriorated, dropping from 4.31 tonnes a manshift (t/MS) to 4.14t/MS. In contrast, the Notts pits improved from 4.35t/MS to 4.69t/MS and have already pushed further ahead this year. There is not doubt that both areas can make significant further productivity gains, notably following the rejection by the National Union of Mineworkers' membership of a proposed overtime ban in persuit of a wage claim.

Much is now being hyped from the newest East Midland mine at Asfordby, a £470m venture due to produce 4m tonnes of power station coal a year from 1992. Asfordby is almost certain to be BC's last new mine as a national industry and the company is profundly hoping that it will contain none of the nasty surprises that its last venture, Yorkshire's Selby, sprung. No one expects that Asfordby will be as thoroughly faulted as Selby has proved to be, although it does start life with the handicap of low heat values and high moisture levels.

Nonetheless, Asfordy will be the first mine which starts life with the working week planned around a six-day operation.

One of BC's battles has always been the public perception of its operations having more in common with the 19th century than the 20th. Baring a totally unexpected marked deterioration in the performance of East Midlands' mines, nothing should be further from reality. While some of the Nottinghamshire mines are unlikely to be producing coal in the early years of the next century, the bulk should join Asfordby in an extended life as the major supplier to the region's power stations in over 20 years time.

Gerard McCloskey



Bolsover Colliery – one of Derbyshire's last mines.

EAST MIDLAND'S COAL MINES

MINE	1989/90 OUTPUT (mt)	MARKET
Nottinghamshire		
Annesley Bentinck	1.35	Power – Ratcliffe
Bevercoles	1.26	Power – Cottam & High Marnham
Bilsthorpe	1.16	Power – Staythorpe
Calverton	0.69	Power – Ratcliffe
Clipstone	0.95	Industrial and domestic
Cotgrave	0.87	Power – Ratcliffe
Gedling	0.86	Industrial and domestic
Harworth	1.26	Power – Cottam, Staythorpe and West Burton
Ollerton	1.31	Power – High Marnham
Rufford	0.59	Power – West Burton
Sherwood	0.90	Power – Ratcliffe
Silverhill	0.86	Power – Castle Donnington and Ratcliffe
Thoresby	2.31	Power – Cottam, Ratcliffe and West Burton
Welbeck	1.30	Power – West Burton
Derbyshire		
Bolsover	0.69	Power station
Creswell (closing)[1]	0.78	Cottam
Markham	1.60	Power station (N Notts)
Shirebrook	1.42	Power station (Didcot & N Notts)
Leicestershire		
Bagworth	1.17	1991 closure
Asfordby[1]	Development	Power station
Warwickshire		
Coventry	1.10	Industrial & domestic
Daw Mill	1.90	Industrial

1 British Coal does not necessarily conform strictly to defined geographical areas.

International Coal Report

Unseasonal weather hits sales

Setbacks for clothing and textile sectors

THE TEXTILES and clothing industries in the East Midlands employ over 100,000 people – more than any other UK region.

These sectors play a vital social and economic role. More than one in five manufacturing jobs in the region is in textiles and clothing. Only Northern Ireland has a higher share.

About 30,000 people in the region are employed in the clothing sector. Of the 4,000 jobs in UK lace manufacture, almost all are in the East Midlands. Dyeing and finishing are also important, accounting for 9,000 jobs - a quarter of the UK total. But by far the biggest subsector is hosiery and knitwear, employing an estimated 50,000 people - about two-thirds of the UK total.

Today, knitting is a high technology industry using computer-controlled machinery for making warp knitted and weft knitted fabrics, hosiery (tights, stockings and socks) and fully fashioned knitwear.

The knitting industry has faced some tough periods, but the last two years have been the worst that many can remember.

Total UK employment in knitting fell from 84,000 in 1987 to 68,000 last year.

The weather has been partly to blame. The hosiery sector has been hit by two successive hot summers, leading women to shun tights and stockings. Knitwear, too, has been hit by the weather, this time by a series of mild winters.

The unseasonal weather merely added to the gloom in an industry already hit by cheap imports and by a swing away from leisurewear towards more structured garments. The late 1980s saw the many household names in the industry tumble.

The industry was dealt a major blow when Coats Viyella closed its Botany Avenue factory. Five years ago the factory employed 1,600-1,800 people and was Mansfield's biggest employer.

Other casualties were Paisley Hyer, the Response Group and Corah. Response was bought out by its management; Corah, making knitted underwear and leisurewear, was taken over by Charterhall, although its Australian parent has its own problems and shares have been suspended.

Probably the most traumatic was the fall of T W Kempton, a privately owned family business with a high reputation. Its closure had a devastating impact.

The clothing industry emerged fairly unscathed from the 1980s, riding the back of a high street boom. By the end of the decade output was almost 12 per cent higher than at the start - faster growth than every other clothing industry in the European Community, except Portugal's.

Not all parts of the knitting industry have done badly. Courtaulds Textiles, the new company formed by the demerger of Courtaulds plc earlier this year, is staking much of its future on its East Midlands businesses.

Courtaulds Textiles claims to be the world's biggest manufacture of lace

Its lace business is based in Nottingham, and its Penn-Nyla and Long Eaton Fabrics warp knitting businesses are in Long Eaton.

In the 1970s, Courtaulds was a major force in the Lancashire cotton spinning and weaving industry. But severe import competition led to a wave of closures and a strategy rethink. Today, 75 per cent of Courtaulds Textiles' fabrics business is run from Nottingham, although only a third is produced in the UK.

Courtaulds identified stretch fabrics and lace (both East Midlands specialities) for intimate apparel as having the ingredients for future success. As well as offering scope for greater design input, higher added value and high-tech investment, these products are relatively immune from low cost competition.

The most sophisticated technology consists of electronically-controlled Jacquard raschel machines made by Karl Mayer of Germany. The best quality lace, however, is produced on Leavers machines, based on a 19th century Nottingham invention. Courtaulds International Fabrics' Nottingham HQ is the centre of the world's largest stretch fabric operation.

An important element of competitiveness comes from being able to offer buyers customised design. This is made possible by computer aided design, which enables customers to view designs without the expense and delay of producing samples. Sampling need be carried out only at the final selection stage.

At the Nottingham centre of Courtaulds International Fabrics' Laces and Textiles business, would-be buyers can view on-screen the effects of different lace designs on finished products. At least one customer has placed orders based on a computer image, without even seeing a machine-made sample.

Sampling itself has become easier. Computerised lace draughting takes a matter of days where old technology took weeks. Ten years ago it took days, sometimes weeks to make changes; today's lace machines can produce new designs in minutes, leading to quick response and customer service which Far Eastern producers cannot match.

Two other well-established names, Debfor and Birkin, are now part of the Sherwood Group which specialises in lace, bras, lingerie, swimwear and nightwear. With headquarters in Long Eaton, it has established an international network with subsidiaries in the Netherlands, Calais (another of Europe's lace centres), West Germany and Hong Kong selling 160m metres of lace annually to 70 countries.

In curtain lace, traditional skills and individual specialisation are still strong, making entry barriers high. Acquisition is usually the favoured route for companies wishing to enter the market, says Mr David Rigby, director of management consultants David Rigby Associates. While Courtaulds Textiles and Sherwood have invested heavily in lace and stretch fabrics, Coats Viyella has been moving out.

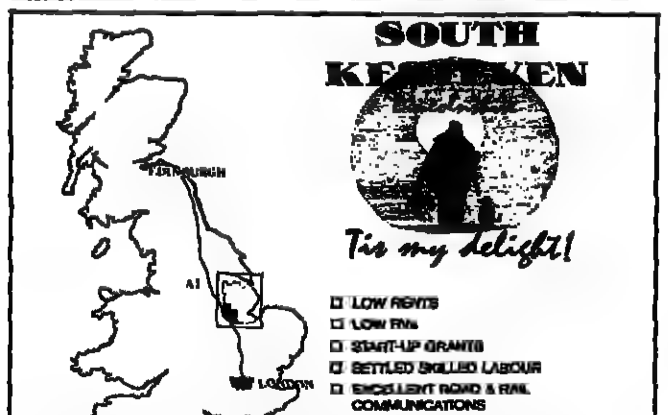
Nottingham lace market

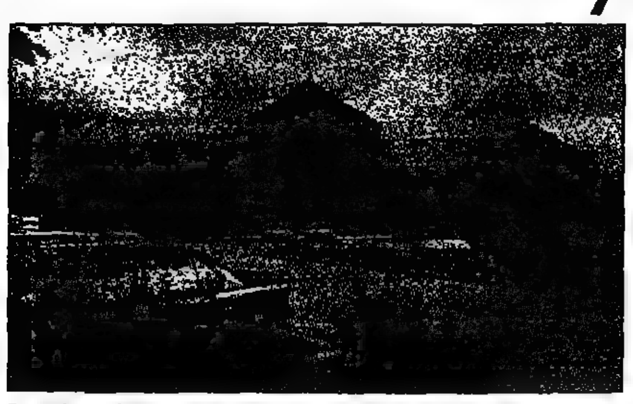
Wrightwear, a small Mansfield based warp knitted elastomeric fabric producer, and J K Lace, also small, a lace manufacturer based in Sutton in Ashfield, were sold to their managements. Instead, Coats Viyella has invested in its knitting and hosiery operations. Its Leicester factory has become a testbed for innovative machinery. In clothing, Coats Viyella claims to have been the first in the UK to install computerised Gerber cutters in the 1970s. Coats has also focused investment in finishing. Computerised control equipment at Stevensons (Dyers) has helped to make the plant, based at Ambergate, Derbyshire, one of the leaders in Europe.

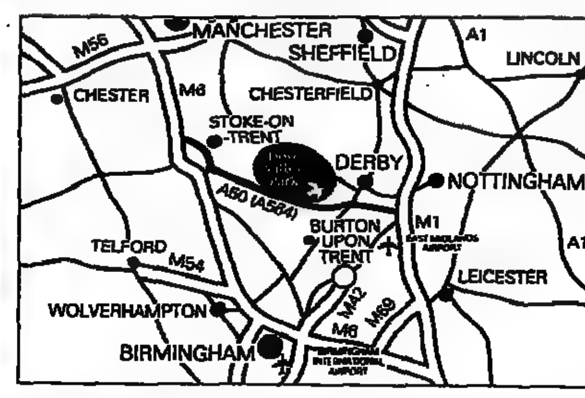
Investment in technology reduces manpower needs and helps solve one of the industry's most persistent problems - shortages of skilled labour.

Recruitment is not helped by the industry's image, which is made worse by the emphasis on simple repetitive tasks and the piece-rate system. But Coats Viyella has introduced team working into its Meritina plant which makes slacks and skirts near Mansfield for Marks & Spencer. As well as saving money by reducing work in progress, quality is better, the first finished products emerge in hours rather than weeks and entire orders can be completed in a matter of days. Workers are better motivated, reflected in lower labour turnover.

Robin Anson







YUGOSLAV TRADE AND INDUSTRY

Yugoslavia's six republics are in ferment as power passes from the ruling communists to newly-elected governments amidst the revival of ethnic unrest. Efforts are also being made to free the troubled economy from state interference, says Judy Dempsey

Living standards have fallen sharply this year as energy costs have soared. Above: young people in Belgrade carry coal from a pile in the street. Meanwhile, prime minister Ante Markovic, right, is implementing economic reforms hinged on privatisation and a new, long overdue fiscal system.

IN THIS SURVEY

☐ *Editorial production by Michael Wiltshire*

Critical days are ahead

IT WAS still possible to speak of a single Yugoslavia as recently as last year. Then, the ruling League of Communists was trying desperately to hold onto power.

But it was a pathetic spectacle. There was never one single Yugoslav communist party. Power was concentrated among the party *élites* in the six republics and two autonomous provinces. There, the republics were often run on the lines of personal fiefdoms, with scant regard for the federal government. The federal government had no authority.

The late President Tito, through the sheer force of his authoritarian personality, kept the country together. All important decisions were made by him. The party *élites* in the republics dutifully toed the line.

But when Tito died ten years ago, the fragility of the system was exposed. The weakness of the federal government was confirmed. Today, Yugoslavia is in ferment as power passes from the communists to newly-elected governments and as the economy becomes freed from bureaucratic and state interference.

The coming weeks and months are critical. For the first time in over four decades, all the six republics will have held free and multi-party elections. It will soon be the turn of the electorate to choose deputies for a freely-elected national assembly or Parliament. It will then have to decide under what political system the six republics should live.

Because the country is so diverse – it has two alphabets, three religions, a dozen ethnic groups and as many languages – each republic has its own review on how the country's political system should be ordered. On the one hand, the two western republics of Slovenia and Croatia want some kind of confederal system which would strengthen the autonomy of the republics at the expense of the central authorities. In practice, this would mean that fiscal policy and defence would be brought under the direct control of the republics. It would also mean that these two republics would feel less threatened by Serbia, the largest of the republics.

Not surprisingly, Serbia and some of the other republics want to maintain the federal structure. Herein lies the problem. Slovenia and Croatia fear that this system would confer too much weight on the republic of Serbia, whose nationalists – whether it is Mr Slobodan Milosevic, the communist president of the republic, or Mr Vuk Draskovic, head of the anti-communist, nationalist Serbian Party for Renewal – harbour ambitions for a Greater Serbia. The spectre of the past haunts the republics as much as the disintegration of the country, or even the fear of civil war.

Against this background, Mr Ante Markovic, the prime minister, had attempted to strengthen the hand of the federal government by implementing economic reforms. His aim is to have a single currency, privatisation, a federal-based fiscal policy and a tight monetary policy. He has had some success with his first package of reforms which were designed to bring down inflation and which were introduced over 18 months ago.

Last year, the monthly inflation rate was 180 per cent. Today it is had been brought down to 8 per cent a month. He also converted the Yugoslav dinar by tying it to to German mark at the rate of 7 new Dinars to DM1. Exporters however still complain that the dinar is overvalued. But Mr Markovic's intention was to make exporters more competitive, cut production costs and attract imports so as to weaken the power of "domestic monopolists" in the Yugoslav market. He has also liberalised imports, freed most prices and has built up the country's reserves which now amount to a respectable $10bn.

The reforms have also led to a shift in exports away from Comecon to OECD markets. Since 1989, exports to Comecon have fallen by 5 per cent to 26 per cent and exports to the OECD countries have increased by 5 per cent to 63 per cent. During the first eight months of 1990, the growth rate of exports rose by 28 per cent and imports by 38 per cent over the same period during 1989.

These measures and trends have had an impact on the current account. During the first seven months of 1990, the surplus in the current account was $515m. The target of $875m for the end of this year will not be reached because of the Gulf crisis. Management of the debt has improved significantly.

Over the past few years, debt service liabilities had been running at 30 per cent of total current account receipts. In 1990, debt/service ratio has been reduced to 18 per cent. Overall, the debt has been cut from $21bn to $16bn, an impressive decrease which indicates a strong sense of monetary discipline by the federal government.

So far so good. But the cost has been high for the consumer.

Rising prices

Living standards have fallen sharply. During the first eight months, the overall growth of retail prices was 80.9 per cent and the cost of living rose by 75.8 per cent. Prices, particularly food, consumer goods, taxis and rents, are almost as high as Vienna. But unlike Austria, which is a prosperous country with one of the best GDP growth rates among the OECD countries, Yugoslavia's growth rates continue to decline.

Industrial output for the first 9 months of the year has decreased by 10.6 per cent compared to the same period last year. The metallurgical and wood-processing industries have been particularly affected; these sectors have declined by 15.6 per cent and 17.3 per cent respectively. The federal government blames the falling output on poor management, illiquidity and difficulties in collecting payments for goods delivered and declining demand by the domestic market owing to slack investment activity. Indeed, statistics from the federal government show that between January and July, there was a total of 10,150 insolvent enterprises with a total of 3.48m workers and obligations estimated at NYD14m.

The sharp fall in productivity is also due to a decline in investment as well as the liberalisation of imports, especially of consumer goods, whose lower prices weakened demand for domestic goods. The Gulf crisis is expected to lead to a sharper fall in the last quarter of 1990. In turn, this will push up unemployment, which is now running at 12 per cent of the work force, but as high as 35 per cent in the poorer, southern regions of the country. It will continue to rise unless the government is successful in attracting foreign investment and establishing small and medium-sized enterprises which could absorb some of the unemployment.

Thus, containment of these problems depends on the success of the second stage of the economic reforms. Implementing the reforms will prove if Mr Markovic and the federal government has the moral and political authority to do precisely that. Ultimately, it will reveal whether or not Yugoslavia can continue to exist as a single state. The thrust of the economic reforms hinge on privatisation and a new, long overdue fiscal system. While Mr Markovic rightly believes that privatisation will facilitate the creation of a market economy, the *raison d'être* of this policy is to break the power of the local political élites throughout the country.

No wonder then that the newly-elected governments in Slovenia and Croatia and Serbia balk at this idea. They have obstructed implementation of privatisation by insisting that property rights, which in the past were nebulously defined as "socially-owned", should be first transferred to the state before being transferred into private hands.

Mr Markovic is furious at this. He believes the delay in establishing private property rights will delay any substantial improvement in the economy. Hence the other dimension to the problems facing Yugoslavia. To compound matters, the end of the communist era has revived historical ethnic grievances. Nationalism thrives on weak economics. Mr Markovic is acutely aware of this dangerous collusion of forces. That is why he is anxious, as he says himself, to put money back into people's pockets as quickly as possible. He believes this will reduce the impact of nationalism and ethnic unrest. But time is running out for Mr Markovic. The greater the fears of instability, the less foreign investors will consider Yugoslavia. It becomes a vicious circle.

Mr Markovic said he needed five years to introduce the economic reforms, to turn the economy around, and to reduce the gargantuan bureaucracy. He was elected prime minister in March 1989. If his government receives another mandate, he has three-and-a-half years left to accomplish this difficult task. But even if the mandate is extended, he must convince Yugoslavs that despite all the economic difficulties and the destructive force of nationalism, their destiny lies in a united Yugoslavia. For the moment, unity is as elusive as reaching any consensus under what sort of political structures Yugoslavs want to live.

While Croats and Serbs trade bitter insults out in the streets, there is a . . .

Politician who keeps his cool

Judy Dempsey and **Laura Silber** in conversation with prime minister Ante Markovic, a dogged, persistent leader with a logical approach to issues

MR ANTE MARKOVIC talks a lot about keeping emotions in check, about creating a balance between the rational and the irrational. As prime Minister of Yugoslavia, he must keep a cool head. He is one of the few prominent politicians who does so.

Out in the streets and among the six republics, Croats and Serbs trade bitter insults. And in some towns in the republic of Croatia, both ethnic communities are heavily armed. Elsewhere, Serbs accuse the Moslems in Bosnia Hercegovina of fomenting an *intifada* (uprising), an utterly baseless accusation.

Over the past two years, scores of ethnic Albanians in the once autonomous province of Kosovo have been killed during Serbia's attempts to erode its autonomy. Today, there is as much trust between the ethnic groups as there is consensus among the republics about the country's future political order. In his view, "efforts to suspend the system [of reform] evidently leads to its erosion until collapse – and the alternative – either the disintegration of the country or the introduction of dictatorship . . ."

In spite of this bleak analysis, he is one of those dogged, persistent, officials who believes in adopting a logical approach to issues. His placid manner and softly-spoken voice can be deceptive. During the interview, he firmly stuck to his premise that economic reforms will resolve the country's problems. But is this wishful thinking?

He looks at it from a purely pragmatic point of view. "These options – disintegration or dictatorship – do exist, and I cannot even exclude the possibility that someone may even wish them to happen.

"But from the aspect of the real existential interests of individual nations and nationalities of this country, and the individual republics, and the numerous ties which join them, this option of Yugoslavia's disintegration into many small states is more a wish or a theoretical possibility than a practical option. There are thousands of domestic and international agreements involved which would take many years to unravel. This process would take so long that objectively, the option is real only in theory."

Do these problems really bother the republics of Slovenia and Serbia? They are politically, economically and socially diametrically opposed. Slovenes yearn to be free from central authority and to secede from the Federation. Serbia, realising that it can no longer control the federal structures, aims at creating a ghetto, authoritarian state, unless the liberal opposition finds its voice and prevails. Slovenia wants to introduce its own market economy at its own pace. Serbia, so far, has prevented the market economy from finding its feet in the republic. Indeed, local courts in Serbia have been known to prevent workers from privatising their enterprises. Under such circumstances, can Mr Markovic bring together such polarised views?

He doggedly sticks to his philosophy: "A dictatorship is a real possibility only if the disorder in the country was of such magnitude that it would be impossible to govern this country any other way. However, over the last 20 months, this government has introduced great changes in the structures of our society, beginning from the systemic, which opened the process of change; to ownership, the accumulation of currency reserves, the curbing of inflation, the convertibility of the dinar, market liberalisation, to capital and money markets which are now being created. All these indicate that the option of dictatorship would not be necessary."

'I am not convinced that multi-party elections by themselves will give birth to democracy'

Moreover, the prime minister believes that the rationality of the market will prevail over the irrationality of nationalism. He also believes free elections will take the wind out of ethnic hatred. But he admits there is no one model which would allow Yugoslavia to make the transition from the one-party state to the multi-party system – "is it only in Yugoslavia, that the transformation from one system to another system is expressed through nationalism? Can you tell me a single country where it has not been manifested? I would even say that in every country where the socialist system was destroyed nationalist forces won power on the slogans of nationalism, religion and anti-communism which means that they won on the emotional and the irrational, not on the rational.

"Do you really think that one can order someone not to be a nationalist? There is no model for the transformation from one system to another system. Everything has to be done from scratch. There is no model to emulate. This is a process which requires time." The parallels with the Soviet Union are striking.

His sympathetic critics, however, believe that the prime minister has spoken out too late against nationalism; that he remained silent over the deaths in Kosovo; that he turned a blind eye to the demagoguery of Slovenes, Croats and Serbs.

"Excuse me, everything that I and this government has done until now was precisely to keep such emotions in check and to moderate the irrational and create assumptions to achieve at least a balance between the rational and irrational.

"The Federal Executive Council (or FEC, the equivalent of a federal government) did everything to create preconditions designed to create an option to prevent the nationalist and separatist forces from being the only alternatives. A new option has emerged which did not exist before: the option of the reformist forces which can no longer be ignored in any one republic."

PERSONAL FILE
Ante Markovic

Born: November 25, 1924.
Education: Dubrovnik, Croatia. Degree in electrical engineering.
Career: 1961-1986, assistant director and director general of the Rade Koncar, electrical engineering factor.
Political advances: 1982-1986, president of the Executive Council of the Assembly of the Socialist Republic of Croatia.
1986: Elected president of the Presidency of the Socialist Republic of Croatia; elected member of the central committee of the League of Yugoslav Communists.
March 1989: elected prime minister.

Mr Markovic was referring to the Party of Reformist Forces (PRF) which he founded earlier this year and which acts as an umbrella for like-minded political groupings.

He decided to set up such a party primarily with the aim of breaking the mould of current Yugoslav political parties. These parties are ethnic-based and are confined to the republics. Mr Markovic wants a pan-Yugoslav, left-of-centre liberal party. So far, the PRF's performance in the republics' elections has been disappointing. Mr Markovic remains patient.

"The process of democratisation takes time. I am not in the least convinced that multi-party elections by themselves will give birth to democracy. They are only one component of democracy . . . the material interests of a multi-party political system cannot be identified without the identification of the property-owner."

He is making some headway in introducing private property. But he faces considerable resistance from among those who believe that property rights and privatisation will erode their political privileges and power.

At the same time, he has to put the country's banking system on a firm footing. "The estimate of the losses plus the non-performing loans . . . total about NYD144bn or $12.5bn. We need long-term resources for this operation to service the deficits. In order to carry out the rehabilitation programme, we have sought the support of the World Bank, the European Community and the Group of 24. We also asked for the rescheduling, via the Paris Club of one part of our debt.

"We hope that our friends will understand the efforts we are putting into reforms in Yugoslvia and that they will support us with relatively modest sums that we need from abroad for restructuring the banks. There is not one republic which does not have to have a single bank rehabilitated," he adds.

Yet in spite of the prime minister's persistent and consistent steps at reform in the face of growing nationalism, there is considerable scepticism that his government has neither the political nor the moral authority to implement any of these changes. Unlike Mr Gorbachev, he dismisses the notion that the government, or other state organs, should be invested with more powers.

"The FEC does not need power to carry out [something that is] a natural process of change. If the state has been efficient, we would not have been in this present crisis, nor would the other socialist countries. There is no choice. For the new system to achieve economic efficiency, we will have to carry out a change of ownership. Obviously I do not think that a market is ideal, but for the moment, there is no better alternative.

"The sooner we realise this, the better. If there is any postponement, it will only cost more. But it will not halt the changes. The FEC relies on this logic and necessity of a market economy . . . it will only help to find the roads, but feels that nothing can be accomplished by force."

Women working on a production line in an electrical-equipment factory in Kranj

TEXTILES

Concern over quotas

THE TEXTILE industry was this year hit by the liberalisation of imports and quotas from the European Community and the US, hampering an already daunting struggle to adapt to market conditions.

Textile producers give qualified support to the radical economic programme of Mr Ante Markovic, the prime minister. But they lament that the reforms caught the industry unprepared.

Officials from the Yugoslav Chamber of Economy say that a fixed exchange rate, at DM1 to YD7, is overvalued by at least 35 per cent and has harmed exports. Industrial production declined this year in most sectors; in the textile industry, production dropped by 18 per cent.

Mr Novica Medenica, secretary of the Association of Textile Industries at the Yugoslav Chamber of Economy, attributes much of the fall in production to a shortage of capital, needed to buy cotton, wool and synthetic fibres.

High interest rates imposed by banks have squeezed the supply of credit, which the industry's managers say they desperately need to modernise equipment. Officials estimate the industry is working at only 25 per cent of potential capacity.

The textile industry employs 471,000 workers, earning salaries equal to about $320 a month, well below the national average. Although cheap labour gives Yugoslav producers an advantage over their European competitors, the advantage is undermined by the high cost of health benefits, such as maternity leave, for the mostly female work force. Nevertheless, textile exports increased by 9 per cent in the first nine months of 1990 compared to the same period last year. Total exports from January-September were valued at about $6m. Around 35 per cent went to eastern Europe, 65 per cent to the EC and North America.

Quotas imposed by the EC and the US on Yugoslav textile imports are a cause of constant complaint by manufacturers, who say they dissuade potential buyers.

"The US has imposed a quota of 100,000 men's wool suits which a factory here could make in two weeks", says Mrs Vera Paranos, senior adviser at the Yugoslav Chamber of Economy. "Yugoslavia represents only 0.8 per cent of total textile imports on the US market, so our imports should not be subject to such strict quotas."

The Yugoslav delegation to the General Agreement on Tariffs and Trade negotiations is calling for quotas to be relaxed, although one textile official concedes that "realistically, it will probably take 10-15 years before the textile trade is truly liberalised."

Although the federal government has reduced the taxes levied on enterprises, municipal and republican taxes remain cripplingly high. The government has granted some export credits, but not enough to allay producers' fears that Yugoslavia has risked damaging domestic producers by opening the doors to foreign imports, while foreign markets have not reciprocated in kind.

The liberalisation of imports has helped the import-dependent industry to cut production costs, through the reductions in tariffs and taxes. Cotton, wool and yarn imports totaled $354m in 1990. But fabrics and ready-to-wear garments totaled $567m.

Liberalising imports has proved a mixed blessing, as foreign goods have undercut domestic sales. Producers' complaints that Hong Kong, China and Taiwan are "dumping low quality goods" on the Yugoslav market have not dulled shoppers' enthusiasm for foreign brand names. Costly designer labels from Italy and inexpensive cotton T-shirts from Taiwan have eroded both ends of the Yugoslav market.

Last month, for example, Belgrade shoppers were buying Mickey Mouse baby clothes from the US. Monthly wages average only $480, but shopkeepers reported that stock was selling fast. Yugoslav producers have lagged behind in responding to changing tastes in fashion, and consumers are willing to pay high prices for foreign brand names and the pure fibre content.

Industry officials see capital investment as the key to improving textile production, especially in the wake of import liberalisation.

"The industry was not ready for this year's changes. But we will be able to compete, when we get the rules of the game", says Mr Medenica.

Laura Silber

Efforts to encourage more joint ventures

Cautious response from foreign investors

ASK any official from any of the republics in Yugoslavia about joint ventures, and they will wax lyrical. It seems to be one of the few issues which invokes enthusiasm in a country riven with nationalism and ethnic disputes.

Indeed, officials tend to believe that the more joint ventures which exist throughout the country, the more this indicates that the economic reforms are taking hold. And because joint ventures attract foreign investment, they must — it is widely believed — be good for the economy and a vindication of the economic reforms.

Mr Andrija Jovicic, a young official at the Central Statistical Office in Belgrade, says the number of joint ventures is on the increase. During the first 10 months of this year, more than 2,307 contracts had been signed. This is a large increase from the same period last year, when less than 580 were set up. So good so far. But do more joint ventures mean a substantial increase in turnover and investments in the country?

Total investments amount to DM1.46bn — "yes, the contracts are numerous — but the amounts are rather insignificant so far," comments Mr Jovicic. The average investment for each joint venture amounts to about $365,000.

So far,the average investment for each joint venture is only about $365,000

The turnover may seem surprisingly low particularly since the federal government last year liberalised the way in which joint ventures could be set up. For example, any capital invested in a company in Yugoslavia can be in foreign currency or dinars, capital goods, licences or franchises. Furthermore, foreigners can fully own an enterprise and the repatriation of profits and capital is guaranteed.

The old days whereby management and the workers self management councils held sway are almost over. Foreigners can set up their own management structures in the enterprises.

In spite of these measures, Mr Jovicic believes the response has been somewhat disappointing.

The reasons are not hard to find — "I think foreign investors are cautious about investing in Yugoslavia. The present political situation does not help matters. But as the government presses ahead with economic and political reforms, confidence, hopefully will increase."

Judy Dempsey

KEY FACTS

Area	255,804 sq km
Population	23.69m
Head of State	Borisav Jovic
Official languages	Serbo-Croat, Slovenian, Macedonian
Capital	Belgrade
Average exchange rate	2.88 Dinars/US$ (1989)
	11.58 New dinars/US$ (1990)

ECONOMIC INDICATORS

	1988	1989
Total GNP (US $bn)	60.5*	77.1*
Real GNP growth	−1.7	−3.3
GDP per capita	2,476	n.a.
Hard currency		
Exports (US$m)	12,779	13,560
Imports (US$m)	12,000	13,502
Trade balance (US$m)	+779	+58
Current account	2,487	2,427
Debt service ratio	31.5%	28.0%
Debt as share of GDP	35.4%	n.a.
Total reserves minus gold (US$bn)	2.298	4.136
Producer prices (change pa)	203	1,306
Inflation (change pa)	194	1,240
Retail sales volume	−6.5	−16.7
Unemployment (000s)	1,132	1,201
Industrial production	−4.8	−9.1
Discount rate (end period)	372.0	8,187

*Estimate

Sources: IMF, OECD, Economist Intelligence Unit.

The cost of importing oil will increase economic pressures, writes **Judy Dempsey**

Crisis in the Gulf clouds the future

YUGOSLAVIA will have to buy oil on the world market, exporters will have to find new markets and its current account surplus could be significantly reduced as a result of the continuing crisis in the Gulf, according to Mr Boza Jovanovic, Yugoslavia's deputy federal minister for foreign economic relations.

Yugoslavia imports 10.5m tons of oil each year, of which 60 per cent is imported from the Soviet Union. Contracts for oil deliveries are made each August between Belgrade and Moscow.

But in common with the other countries of eastern Europe, the Soviet Union has not fulfilled its deliveries to Yugoslavia since August. Mr Jovanovic reckons that the shortfall in deliveries could be as high as 50 per cent.

Beginning in 1991, all payments between the Soviet Union and the countries of eastern Europe, including Yugoslavia, will be switched from the transferable rouble to the hard currency. Many of these countries have substantial trade surpluses with the Soviet Union.

In order to reduce these surpluses, Hungary, for example, effectively banned enterprises from exporting to the Soviet Union. The remaining surplus, reckoned to be about $1bn after Budapest and Moscow agreed to fix the transferable rouble to about 76 cents, means that Hungary has $1bn worth of credit. On paper, it could have $1bn worth of free oil from the Soviet Union, although the Soviet Union wants this to be spread over five years.

Yugoslavia has a trade surplus with the Soviet Union which by the end of this year could reach $500m. Part of the surplus consists of debts owed by Moscow to Yugoslav enterprises.

However, Mr Jovanovic says that the surplus will not be reduced by the Soviet Union supplying oil to Yugoslavia.

On the contrary, he says that Yugoslavia will continue to pay for oil in hard currency, while the trade surplus will be reduced by barter deals whose transactions and costs will be calculated in dollars.

In spite of the shortfalls, Mr Jovanovic says the Soviet Union has promised to make up the oil shortfall during the last two months of this year.

But there is no certainty that such obligations will be met, given the deteriorating economic and political situation in the Soviet Union. Yugoslavia may thus be forced to buy oil at world market prices.

The shortfall in Soviet oil deliveries could be as much as 50%

In the past, it could have relied on Iraq for meeting a part of the remaining 40 per cent of its supplies. These supplies were linked to Iraq's outstanding debts.

For the past three years, Yugoslavia's exports to Iraq were worth between $300m and $400m. In addition, Yugoslavia had investments, mostly in construction contracts, worth another $870m. "Our country is owed about $1.5bn by Iraq," explained Mr Jovanovic. Yugoslavia's claims for 1990 are about $678m.

Earlier in the year, Iraq had agreed to repay 75 per cent of these claims. The agreement was worked out on the basis that Iraq would supply Yugoslavia with 3.3m tons of oil in lieu of payments. By August, Iraq had supplied 1.3m tons of oil, which amounted to $240m of the country's outstanding debts to Yugoslavia. Iraq's invasion of Kuwait, and the ensuing UN embargo, rendered void that agreement.

"The embargo will mean that we will now have a balance of payments deficit of $1.3bn," explains Mr Jovanovic, who remains somewhat resentful that Yugoslavia, unlike the "front-line" states bordering with Iraq, is receiving no compensation by the US or any international financial institutions.

Mr Jovanovic reckons that Yugoslavia this year needs $500m to make up for the Soviet and Iraqi shortfalls in oil. In addition, non-payment for commodity and construction exports to Iraq will cost the authorities an additional $145m; investments in construction total $1.76bn and the cost of machinery and other equipment in Iraq is $250m.

"You must not forget that we had 8,000 workers in Iraq. They have now lost their jobs. Because we were highly engaged in Iraq, this embargo is costing us dearly. The Gulf crisis is adding $1.5bn on to our annual bills."

Mr Jovanovic believes the perspective for 1991 is bleak. "Of course it depends on the length of the Gulf crisis and how it will be resolved and the price of a barrel of oil."

He says that the oil bill will cost Yugoslavia $1bn; there will be a shortfall of $600m for unpaid claims; Yugoslavia will not be paid between $850-$900m arising from investments in Iraq; loss of markets to Iraq will cost an additional $300m-$400m; and to compound matters, the drought during the summer has reduced yields in maize, tobacco, sugar-beet and sunflower by 50 per cent, or $2.5bn.

BANKING SYSTEM

Political forces stand in way of any reforms

THE GRIM reality is coming home to roost for Yugoslavia's banking system. No matter what reforms are introduced, political forces stand in the way of implementation.

Behind the broad smiles which often seem a permanent fixture on the faces of federal government officials, lie complex problems which cannot be resolved by the rhetoric of reform or even legislation.

Enacting the legislation, difficult as that may be, is not the biggest problem. The difficulty arises when officials try and implement change. Nowhere is the resistance to reform so great than in the Yugoslav banking system.

The country's banking system is a complicated one. The structures grew out of the workers' self-management model which was set up by the late President Tito during the 1960s.

On paper, workers' self-management seemed wonderfully democratic. For it was a means, indeed the *means*, through which Yugoslavia's ruling communists differentiated themselves from their Soviet and east European counterparts.

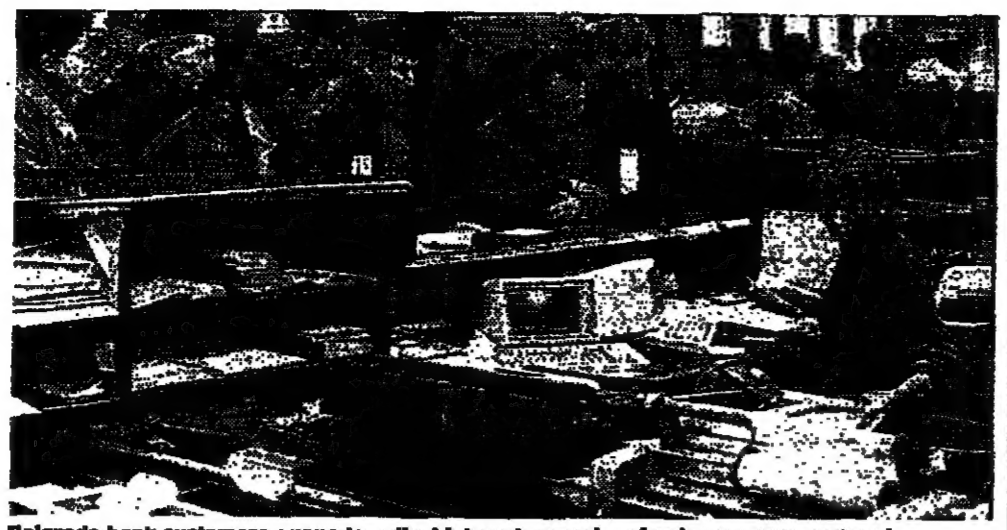
The system allowed enterprises the right to establish their own banks which were financed from a percentage of the capital of those enterprises.

In practice, enterprise managers were automatically given a seat on the management boards of those banks. Indeed, more often than not, they became the directors of those banks. Shareholders, in the western sense, had no meaning. Bank directors/enterprise managers were generally accountable only to themselves.

So it was not surprising that enterprises granted themselves credits from the banks, even if those enterprises did not have the capital to back up those credits.

By the end of the 1980s, as Yugoslavia struggled with a $20bn external debt and soaring inflation, Mr Ante Markovic, the prime minister, began to take a hard look at the structure of the country's banking system. He, and his colleagues at the National Bank of Yugoslavia, or Central Bank, did not like the look of the books. The banks were in debt. The enterprises were in debt to the banks. The capital base of the banks, inevitably, was pitifully low.

Such regulations, the norm in western-style banking, were in any case neglected. Indeed, western bankers reckon that as a result of this system, the percentage of non-performing loans in the banks could be as high as 60 per cent, or about $10bn. Thus, the need for a complete overhaul of the banking system was placed high on Mr Markovic's list of priorities.



Belgrade bank customers queue to collect interest earned on foreign currency accounts

Some of the banks responded with enthusiasm at the idea of trying to break the Gordian Knot which bound the banks to their enterprise parents. One of these was Jugobanka.

Set up more than 35 years ago, it already had a network of 400 offices, 12,000 employees and assets exceeding $7.2bn. But its creditworthiness was wretched.

Last January, the bank, headed by a new supervisory board, executive board and board of directors, (based, incidentally on the German banking system), was turned into a joint-stock company or Deonicarsko Drustvo (DD). It took over the assets and liabilities of Jugobanka Udruzena Banka, its former name, and 21 of its 24 Basic Banks. Since then, it has raised $350m on the domestic markets.

Behind the smiles of government officials, lie complex problems

The first issue of ordinary shares was made available only to socially-owned enterprises (a unique form of ownership in Yugoslavia which does not correspond precisely with state ownership) and former members and customers of the old bank.

More significantly, Jugobanka is slowly breaking its links with the enterprises. As Mr Luka Reljic, the deputy-chairman of Jugobanka explains, "the managing director, who is appointed by the general meeting, is responsible for maintaining the bank's liquidity and solvency. He alone can decide on lending for periods of up to 30 days."

The board of directors, the new management body, decides on loans and borrowings by the bank at home and abroad in excess of limits set. Above all, adds Mr Reljic, "the bank is interested in profits."

Mr Reljic is a great believer in the market, particularly privatisation. Without these two factors, politics, he says, will continue to interfere in the day-to-day running of the banks.

"I must admit that we are still in the process of dismantling the old ties between enterprises and the banks. There is great resistance to change. And this resistance continues because the multi-party system has not yet been established," he says.

The resistance stems from powerful vested interest groups on the local level, or communes. These local officials fear the multi-party system because it will institutionalise a system of public accountability. But their greatest fear is the market economy.

Under the present system, enterprises are "socially-owned" by the local communes. This means that "ownership" and property rights remain nebulous concepts. Property is not invested in state-ownership; nor is it owned by individuals.

A percentage of the communes' revenues come from the enterprises. So, in the case of unprofitable enterprises, they often issued themselves credits from their banks. Those credits were used to pay wages and taxes and prevent unemployment. Furthermore, it delayed any serious consideration about restructuring or becoming competitive. The banks always bailed them out.

And because the communes often worked on the basis of a patronage system in which the enterprise director was chosen by the commune, no one dared bite the hand which fed it.

"That is why there is so much resistance to privatisation on the local level," explains Mr Reljic. The "old-boy network" of clientelism, patronage and favours would collapse, leaving officials to the vagaries of the market economy.

"Only through economic pressure will enterprises be pushed towards privatisation," he says. That is why Mr Reljic and his colleagues want the economic, fiscal and tax powers of the powers of the republics to be subordinate to the federal authorities.

That is also why, as a banker and advocate of the market economy, Mr Reljic believes that the dinar should not be devalued.

Since January 1, the dinar has been pegged to the Deutschmark at the rate of 7 New Yugoslav Dinars to DM1. Yugoslav exporters raised their arms in disbelief at this rate, saying that it would price their goods out of the market.

On the contrary, says Mr Reljic, exporters would be forced to become more competitive, mainly by reducing costs.

And although exporters still complain, Yugoslav bankers believe that such pressure could force enterprises to become more efficient by choosing competent managers and employees.

Thus, one of the main reasons why Mr Reljic opposes any devaluation – it would play into the hands of conservatives; the pressure on enterprises to reduce dependence on banks and the communes would be eased; the signposts along the road towards the market economy would be thrown away; and attempts at implementing the banking reforms would flounder. Hence the inter-dependability of the reforms and the opposition of forces to those reforms.

Judy Dempsey

Restructure bill may exceed $12.5bn

MR ANTE MARKOVIC, the prime minister, reckons the cost of reforming the banking system could exceed $12.5bn.

The costs take into outstanding debts owed by enterprises to the banks and non-performing loans, *writes Judy Dempsey.*

Plans to restructure the country's 68 banks were drawn up last year. The main aim is to audit all the banks of Yugoslavia.

The process has been slow because of the lack of statistics and the way in which different republics have responded to the reforms.

The authorities intend to close down or amalgamate many of the banks. In doing so, it will break the banks' links with the enterprises. The European Community's "Phare" programme has allocated Ecu35m to help modernise the system. In addition, the federal government invited back the UK-based Coopers & Lybrand Deloitte consultancy firm to Yugoslavia.

Coopers & Lybrand Deloitte first started working in Yugoslavia in 1973 when it provided training assistance to the Special Audit Group of the Social Accounting Service, (SDK).

Since September 1989, it had been assisting the Special Audit Group of SDK under the supervision of the World Bank and the National Bank of Yugoslavia.

STOCK MARKET

In swaddling clothes

MESSRS Branislav Cosic and Branislav Jorgic would be at home in any of the stock market exchanges throughout the world.

They are young, ambitious and energetic. Their smart new offices, concealed in a highly unusual glasshouse type green-coloured building not far from the centre of Belgrade, are equipped with banks of computers, western newspapers, telephones that work, and tastefully-chosen furniture.

The only trouble is that as director and floor operation manager respectively, Messrs Cosic and Jorgic have very little paper with which to deal. In fact, Yugoslavia's stock exchange is still in swaddling clothes, waiting for privatisation to get off the ground, waiting for companies to raise equity on the stock exchange and waiting for some foreign investment to roll in.

However, Mr Cosic, who is 37 years of age, is upbeat, but realistic about the prospects of Belgrade's new stock exchange – "without privatisation, capital markets and the exchange cannot function," he says.

But in addition to these crucial elements necessary for a market economy, Mr Cosic adds that it is up to his generation and the younger generation to start building a new entrepreneurial class.

"After 50 years of communism, we have no experience on how to go about setting up new institutions. But over the past few months, in this short space of time, we are slowly building an infrastructure and an information system here in this building."

Some of the advice has already come from Mr Robert Bishop, a former senior vice-resident of the New York Stock Exchange. Mr Cosic says he has helped Belgrade to develop rule and statutes for the General Assembly."

But apart from the rules, which in retrospect, will almost seem the easiest part, Mr Cosic believes he and his colleagues need to inform and protect any future investors.

'We have no experience on how to go about setting up new institutions'

What Mr Cosic has in mind is a system which is fair in the sense that "the general public must know what the risks are when they buy shares. As far as is possible, we must tell them the situation about all those shares which will be listed on our exchange."

Essentially, Mr Cosic wants to instil confidence from day one when individuals start trading. That will also mean companies will have to produce annual and bi-annual accounts which conform to international standards. This is another aspect to the reforms which are requiring attention.

But given the economic and political situation in Yugoslavia, where attempts by the federal government to introduce reforms are fiercely opposed by the six republics, who does Messrs Cosic and Jorgic expect to risk placing their capital in untested shares?

Mr Jorgic believes the exchange, like any other, will rely on private individuals and on institutional/foreign investors – "if we have good regulations, we will attract these people," he says rather confidently.

So far, there have been few enterprises willing to take the opportunity to trade. But one which has – Slavonska Banka Osijek, from the western republic of Croatia – appears to be doing well. But one or two papers alone will not make the exchange a buzzing institution. No wonder there is no need for brokers – yet.

The trading hours testify to its embryonic stage. Trading is once a week, on a Tuesday, and starts at 10am. But so far, Belgrade's stock exchange backers remain committed.

It was set up by 32 of the country's banks who each pay a fee to the exchange. But even the banking institution is undergoing a long overdue modernisation. In fact, there is today hardly an institution in Yugoslavia which is being spared the attention of the federal government.

For those at the Stock Exchange, this is good news. Even though the fears of instability sometimes dulls their enthusiasm, Messrs Cosic and Jorgic believe the economic reforms will breed competition and, eventually, a small but buoyant trading floor.

Judy Dempsey

The problem of defining property rights delays restructure of the enterprise sector

Privatisation: no simple task

PRIVATISATION is the buzz-word among Yugoslavia's federal government. But implementing privatisation is proving to be an extremely complicated and long-drawn out process – as Mr Branislav Lukic is finding out.

Mr Lukic, 36, is one of the two young technocrats running the Federal Agency for Privatisation, a small two-roomed office equipped with a computer which happens to belong to Mr Radomir Denda, his colleague. Their task is to restructure the existing enterprise sector in preparation for its sale; and to establish small and medium-sized enterprises with the aim of making them the backbone of the Yugoslav economy.

In the other countries of eastern Europe, privatisation has come up against several obstacles. The Hungarian government, for instance, has been unduly cautious about selling off its enterprises both to domestic and foreign buyers, even though it is in desperate need of foreign capital to modernise the economic infrastructure.

In Poland, privatisation is moving along, despite persistent worries that a few will make a "quick buck" at the expense of the many who often feel excluded from the benefits of the economic reforms.

In Czechoslovakia, the government is preparing to sell off restaurants and small shops. Privatisation of the giant state-run enterprises will take place at a much later date and will be subject to certain restrictions, in particular what percentage of the shares the State should continue to hold in these large companies.

Despite these differences, there is one common thread which together binds all these attempts at privatisation: property rights. And defining property is one of the principle problems facing Mr Lukic and his colleagues. Persuading Yugoslavia's six republics to accept privatisation is the second biggest challenge which Mr Lukic must confront.

Defining property rights in Yugoslavia is like trying to make sense of the political system under which the republics existed after the Second World war. Under the late President Tito, property was embodied in "workers self-management," a system designed to ideologically differentiate Yugoslavia from the state system enunciated by the Soviet Union and its east European allies. But it was a system shrouded in nebulous rights and flawed by its inefficiency.

Theoretically, the workers owned the enterprises, yet they could not buy shares. They could not sell the enterprise nor could they seek foreign partners. In practice, the system became bogged down in tedious decision-making processes which facilitated the rise of a new bureaucratic class which ran the enterprises like personal fiefdoms. It is that legacy which Mr Lukic must now dismantle. It is not easy.

Far-reaching decision

On paper, the privatisation law, passed 18 months ago and refined last August in the Law on Social Capital, sets out to define property rights. In doing so, it allows Yugoslavs and foreigners far-reaching rights to buy and own property, whether it be land, housing or enterprises.

Mr Lukic fully realises that privatisation depends on the availability of capital and equity, and must involve the workers themselves. For this reason, the federal government intends to issue coupons to those employees wishing to obtain shares in their enterprises.

But unlike the Polish, or Czechoslovak experiments, Mr Lukic insists that "nobody will become owners of shares without purchasing. Everybody must buy. Nothing is for free."

Given the fall in living standards, signs that inflation is again rising, and less disposable income, the federal government has decided to issue shares to workers at discount rates – "workers and individuals will have the right to a discount, ranging between 30 per cent and 70 per cent which will the maximum discount. The scheme will work on the basis that for every year of employment, an employee will have the right to a 1 per cent discount, in addition to the 30 per cent which will be automatically given to the workforce at the very start of privatisation, and assuming each employee agrees to privatisation," explains Mr Lukic. "Workers will be given the chance to pay for the coupons over a period of ten years."

He reckons that the average discount will be 44 per cent –"this means that employees will be able to purchase its enterprise assets for 56 per cent of the actual value...the value of the socially-owned enterprises will be reduced on average by 44 per cent. In effect, the value of capital in the enterprises will be increased by 56 per cent – that is the price which the workers will actually pay."

The government could have introduced privatisation through a more circuitous route, such as spending time evaluating the assets of the enterprises, he adds – "but we have between 27,000 and 30,000 socially-owned enterprises. If we had decided to have an official evaluation of the assets, it would have taken a very long time. We do not have that time.

"Essentially, we are trying to implement privatisation from below. Extra capital will be provided to the enterprises without interest or other (outside) capital."

Despite the apparent ease in which enterprises can "privatise" themselves, Mr Lukic says the opposition to privatisation is considerable. "It comes from political forces, managers, misinformation and lack of information, and ignorance."

Under the present system political groupings monopolised all economic decisions – "that's why we must introduce privatisation," he says. "It will shift power away from politicians to the enterprises themselves. No wonder these forces resist the economic reforms."

He has no qualms in accusing the republics of Slovenia, Croatia and Serbia of blocking the reforms. Slovenia, at one time the vanguard of the economic reforms, advocates transforming socially-owned property not into private property but into state/public property. In addition, it wants to break completely away from the central/federal government.

Croatia's freely-elected right-wing parliament also wants to bring the socially-owned enterprises under state control before it introduces privatisation. Mr Lukic and his colleagues say these methods serve only to replace one clan of political chiefs with another pro-government clan. They also say that both republics are attempting to suspend the federal laws.

As for Serbia, the largest of the republics, resistance to privatisation has been the toughest. Mr Lukic cites several cases whereby workers, after voting to privatise their factory, have had their decision blocked by the courts in Belgrade, the federal and republican capital of Serbia – "we don't mind if the state takes over these enterprises, but on one condition: the state must prove that it has invested into the enterprise. If the state wants to take over an individual enterprise, it has to pay. All forms of ownership have equal rights. Opposition to privatisation comes also from the management, a trend common to other countries in eastern Europe – "these managers think they can today obtain money for free," he says."In the old days, they simply borrowed money to cover their losses and pay wages and salaries."

Managers' opposition also stems from the fact that they are afraid of the market economy. After all, workers will want good managers who want to make profits.

Disinformation is another obstacle. Because the Yugoslav media is so fragmented, Mr Lukic says that getting the message of privatisation across to the workers is difficult. But he did not expect that a major speech made in November by Mr Ante Markovic, the prime minister, which spelt out the need for reforms, would actually be banned from broadcast in the republics of Croatia and Serbia.

Thus, it is not surprising that Mr Lukic spends a great deal of time travelling around the country, visiting factories and explaining to workers what privatisation means. To help get that message across, the federal government has set up an agency specialising in privatisation and the setting up of small and medium-sized enterprises, in all the republics. The role of these agencies is to consult the enterprises, find potential buyers (although the enterprise has the last say), and make sure that if, as a result of privatisation, workers will lose their jobs, they will be paid the required lump sum which is the equivalent to six months' wages.

Furthermore, the price paid for the enterprises will not go directly into the enterprise. Instead, it will be channelled into the Development Fund which was set up in April with the primary task of accumulating resources and capital.

Mr Lukic has no doubt that privatisation will eventually be implemented. Despite all the obstacles, he says it is one of the weapons with which political interference in the enterprises can be once and for all smashed. That is one of the battles now facing the federal government. Mr Lukic remains cautiously optimistic that it will win.

Judy Dempsey

Government encourages small and medium-sized enterprises

Agency means business

ALEXANDER DENDA epitomises the young, energetic, technocrat. His designer shirt (without tie), smart check jacket, cord trousers and handsome brown shoes, convey a sense of style and confidence.

Indeed, he seems to be one of those up-and-coming Yugoslavs who is determined to reap the benefits of the reforms which are finally breaking down the state's stranglehold over the economy. Except that Mr Denda is not running his own business: in fact, he is the secretary of the government-backed Agency for Small and Medium-sized enterprises (SMEs).

The agency was set up last April with the aim of encouraging Yugoslavs and foreigners to set up their own business. Any foreigner would have balked at such an idea. Although Mr Ante Markovic, the prime minister, had successfully brought down inflation from its annual rate of 2,000 per cent to below 5 per cent a month, there still remains greater uncertainty about the political situation. So, new investors and risk-takers still remain wary of setting up shop in Yugoslavia. But Mr Denda brushes aside these concerns.

Equipped with a computer (his own), and assisted by one other colleague, this small office located the other side of town, across the Sava river, is optimistic that the SMEs *will* get off the ground.

The signal for setting up SMEs came nearly 18 months ago when the prime minister reckoned that one of the ways in which to revitalise the economy, attract foreign investment and soak up unemployment was to allow individuals to set up their own businesses.

Although statistics are unreliable, sections of the public seem to have responded. By the end of September, Mr Denda had 37,866 SMEs on his books. These employ about 180,000 – six people to each SME. He is quick to point out that this figure does not include the 480,335 craftsmen, of which 311,000 own their own business and the remaining 169,000 are employed.

A small enterprise is defined as including all companies which employ up to 50 people. Mr Denda believes the gross *annual* salary of those employed in these enterprises does not exceed DM8,000 ($5,300). "The value of the assets per employee is less than DM6,000," he adds.

Medium-sized enterprises include those companies which employ more than 50 people, but under 250. The annual salary is about DM40,000.

It is too early to talk about turnover – "the accounts for the first six months have not yet been handed in," he says. "And besides, maybe some of the new SMEs are simply too small for the moment to bother about doing accounts. It is early days."

The SMEs are concentrated mostly in the republics of Slovenia in the west, and Serbia in the centre and about half of them are involved in trade, services and import/export.

Some sceptics think young Yugoslavs and smart foreign investors set up an SME principally to obtain tax concessions and circumvent duty tax on imports. But Mr Denda does not entirely agree.

"We have to take these SMEs seriously, not just because we regard them as the potential backbone of the economy but because we are receiving support from the European Free Trade Association's Development Fund. EFTA has given us $100m, which will be spread over five years, to develop this sector of the economy. In addition, the World Bank is scheduled to give us $200m next year and PHARE, (the European Community's economic assistance programme) has already given us $35m for this year and a further $135m for 1991."

He hopes that such an injection of capital will raise the contribution of SMEs to GNP above its current 1.5 per cent.

Legislation, as well as the economic and political climate, plays a significant role in making SMEs an institutional part of the economy.

He believes that SMEs could mushroom; that many will be set up as genuine long-term operations more intent on creating an entrepreneurial class than by-passing import taxes, and that they could absorb some of the unemployed which total 1.24m out of a population of 23m.

Judy Dempsey

FOOD INDUSTRY

Battle to keep pace with EC

NO-ONE involved in Yugoslavia's food processing industry – farmers, enterprises or government – is satisfied. However, all agree on the need for complete overhaul.

While food production is dominated by small-scale private farming, the processing industry is dominated by giant socially-owned enterprises, more susceptible to political pressure than to market dictates. Managers are all too often political appointees.

Serbia's processing giant, Privredni Kombinat Beograd, recently kept a US delegation waiting for hours on account of alleged US support for the Albanian minority in the southern province of Kosovo – scarcely a gesture of commitment to a market economy. Prime Minister Mr Ante Markovic is working to change attitudes formed over 50 years of communist rule.

The industry was beset with difficulties. Drought struck for the fourth successive year. Farmers struggled with rising costs and large enterprises grappled with falling production. Liberalisation of imports provided stiff competition for the processing industry.

Exports of processed fruit and vegetables totalled between $250m-$300m in the first nine months of 1990. About 80 per cent of exports went to the European Community, 15 per cent to eastern Europe and the Soviet Union. Most of the remainder went to the US and developing countries. Germany was Yugoslavia's biggest customer, buying raspberries and cherries worth $120m between January and October.

Those figures do not conceal a slump in agriculture that began in the early 1980s. Officials in the processing industry blame the stagnation on a lack of government support. They are calling for increased subsidies to producers.

"Agriculture is only subsidised by 8 per cent in Yugoslavia, whereas production in EC countries is subsidised by 46 per cent", says Mr Slavimir Radosavljevic, acting secretary of agriculture at the Yugoslav Chamber of Economy.

An influx of imported foods has sharpened criticism. "The federal government is not doing enough to provide the basic foundations for agriculture to compete with the rest of Europe", says Mr Radosavljevic.

Imported goods, affordable and attractively packaged, fill supermarket shelves. Bottled vegetables from Austria, Hungary and Germany are no more expensive than dull jars of pickled cucumbers from Vojvodina, Yugoslavia's agricultural heartland.

Managers are trying to keep pace with European standards. Last month, producers attended a seminar sponsored by the Netherlands on packaging and quality control. "No-one used to pay attention if a label was crooked. Now they realise that consumers will buy another product if it is better packaged", says Mrs Mirijana Dukovic, an agricultural adviser at the Yugoslav Chamber of Economy.

Why with 2.44bn acres of arable land is it necessary to import milk? Mrs Dukovic blames misguided agricultural policies. "The government did not invest in the long term. We need irrigation systems. We need to develop the infrastructure and to province farm communities with the conditions for a normal life."

A rural exodus to urban areas, especially among the young, has decimated village life. The impact on agriculture has been severe, as small farms represent 85 per cent of all agricultural producers.

Industry officials accept that the economic situation precludes the granting of large-scale subsidies to farmers, but say more assistance is essential if they are to compete. "The federal government thinks competition is healthy, but the industry needs to walk before it can jump", says one producer. "We need basic programmes to improve the irrigation systems. If this had been resolved earlier the consequences of the drought would not be so great," says Mrs Dukovic.

Laura Silber

Melanie Friend

Grocer displays farm produce in a Kosovo shop *(above)* and *(left)* a peasant farmer on the land. Food production is dominated by small-scale private farming

Increase in foreign remittances

Rich rewards for migrant workers

YUGOSLAV *gastarbeiters* last month packed into planes, buses and cars, returning home to vote in elections. They arrived at the weekend, loaded down with gifts from the west. On Sunday they left, carrying jars of home-made food, to go back to work in Switzerland, Germany and France.

Nearly all of the 30–40,000 workers who came back in November have spent more than five years abroad. But they remain tied to Yugoslavia and wanted to cast their ballots in the elections.

More than 500,000 Yugoslav *gastarbeiters* work in western Europe, according to official statistics. Between 15-20,000 workers, over the past five years, have returned annually to Yugoslavia. The return migration peaked at about 80,000 in the late 1970s, when the Yugoslav standard of living seemed comparable to that of neighbouring Greece or Italy.

Many of the *gastarbeiters*, mostly men, who returned last month, had left behind families in Yugoslavia. They have no wish to assimilate in their host country. Instead, workers save their wages – sending home monthly remittances to relatives – and plan to return, with thousands of dollars in savings, to their birthplace.

Total receipts from Yugoslav workers abroad were valued at $8.2bn in the first nine months of 1990, which represents a 57 per cent increase over the same period in 1989. Out of the total receipts, $6.03bn was withdrawn from Yugoslav banks – but the remainder was left in savings, which represents a 54 per cent increase over January-September 1989.

What happens to these workers when they come back to Yugoslavia after years abroad? Many open up restaurants, after years of waiting on tables in Lausanne and Paris; some return in Mercedes and drive taxis in Belgrade; and others open up mini-markets, modeled on western convenience stores.

It is not unusual in remote Yugoslav villages to discover a cafe named 'Stuttgart' or 'Stockholm' – a reminder of the proprietor's years abroad.

The countryside throughout Yugoslavia is dotted with houses – in various stages of completion – which *gastarbeiters* build during holidays to move into on their return.

In this country where ethnic divisions threaten to break out into open conflict, the many ethnic groups share the common experience of being a *gastarbeiter*, whether a Serb from the city of Kragujevac or an Albanian from the town of Pec.

Returning *gastarbeiters* can play an important role in the transformation of the Yugoslav economy. After more than 45 years of propping up industrial giants, the government, under Mr Ante Markovic, the prime minister, is now encouraging the development of small enterprises. The worker who returns from the west contributes more than foreign exchange to Yugoslavia's currency reserves. They have the spirit of private initiative.

Mr Zivko Maric worked for 13 years in a West German factory. He returned to Yugoslavia in 1981, and now owns a small plastics factory in the town Zeleznika, just south of Belgrade. After the initial trials of starting up, Mr Maric is now set to expand his business. "At first, everything was very difficult. It took more than a year just to get the necessary paperwork in order."

The factory produces plastic pipes, which are used for auto brakes and machinery, for domestic and foreign customers. Mr Maric admits that Yugoslav companies are slower to pay their bills, but understands that he has to "help them through this difficult economic period".

Mr Maric says that foreign capital is an essential ingredient to building up his business. At present, he is negotiating with Blake, a German company which produces machines.

"The first investment will be relatively small, but I am confident their interest will increase as our markets expand," says Mr Maric.

His experience abroad has taught him the ways of Western businessmen. Mr Maric complains that high taxes, especially from the republican government, cut deep into his profits.

Yugoslavia's *gastarbeiters* went abroad with no savings and returned richer and with solid work experience. The *gastarbeiters* understand Western production standards and quality control. It is not just their capital that will help Yugoslavia, but also their skill and pride in their jobs.

The thousands of workers who will return in the coming years can contribute their sense of discipline, not usually acquired by workers under communism. Mr Maric is proud of his achievements, but he says: "Whoever works, can have this, too."

Laura Silber

Do's and dont's for travellers

Judy Dempsey and **Laura Silber** offer a few tips for business visitors

YUGOSLAVIA is a challenge for any visitor. The rich diversity of languages, Hungarian, Serbo-Croatia, Slovene, Albanian, Turkish, Macedonian, Bulgarian, may bewilder the first-time traveller to the country.

The two alphabets, Latin and Cyrillic, depending on the republic, will add to the confusion. If you spend Christmas in the western republic of Slovenia, everybody will be celebrating. But in Serbia, which is Orthodox, you will have to wait until January for their great feast.

A few do's-and-dont's will make life easier.

■ POLITICS: Yugoslavs are extremely sensitive to any critcism about the political crisis. If you say to the Croats that you "think Belgrade, the federal capital and capital of Serbia is beautiful," they will frown.

Praise the capital you are in. And above all, avoid getting into a discussion about which ethnic group you must sympathise with.

■ TAXIS: On arrival at any airport or railway station in Yugoslavia, make sure the taxi metre is operating – not that that makes the slightest difference: we have been in taxis covering the same distances, and the prices are always different. Draw your own conclusions. Negotiate the price.

■ CUSTOMS: Always shake hands. It may not be an Anglo-Saxon habit, but it is a "must" form of communication in Yugoslavia.

■ TIME: It has its own dimension in this part of the world, particularly at airline offices and tourist bureaus. Assistants are invariably having a coffee-break which lasts at least an hour.

■ HOTELS: The state-run hotels are generally badly maintained and expensive. Do not be put off. When making a telephone booking, the reservations desk invariably replies, "Full". Don't believe it. Persevere, send a telex, or go through a travel agency.

■ QUIRKS: The Secession-designed Moskva hotel in Belgrade, located in the centre of the city and in need of a massive injection of capital, is the place where East truly meets West. During the summer, the right side of the terrace serves Turkish coffee and the left side serves expresso.

■ PORTERS: If you have an appointment in any of the grey government offices, or Chambers of Commerce, never step into the lift without notifying the porter. They sit in smoke-filled rooms, seemingly doing very little and oblivous to the world around them. But they suddenly come to life if you ignore them, even if you have been in the building a hundred times.

■ APPOINTMENTS/TIME: Never, never expect to complete interviews or appointments within the hour, or obtain information until the very last minute.

Bureaucrats still have all the time in the world to give "an introductory overview," (minimum length 35 minutes). Things are changing a little. Be patient. Yugoslavs love to talk.

■ TOLL ROADS: They can be rip-offs: the cost is much cheaper for Yugoslav-registered cars than foreign vehicles. But – and we hope this is not the norm – the collector recently charged us for the full whack of $15 on the grounds that we were foreigners, even though we had Yugoslav number plates.

■ CAR-HIRE: If you are travelling to Kosovo, do not rent cars with Belgrade number plates. Ethnic Albanians, whose political autonomy was stripped last year by the republic of Serbia are resentful about this political deed.

■ HOSPITALITY: Never under-estimate hospitality. If you arrive in a town late at night and if there is no hotel, you can be sure someone will help you or put you up. If you are invited to dinner, it is not just a gesture. It is a statement of intent.

■ THE POLICE: Do not argue with them.

■ TOBACCO: Do not expect to find non-smoking sections in restaurants.

■ CURRENCY: Do not be surprised if you cannot make sense out of the many different denominations in the Dinar paper notes. Notes issued before 1990 are a little like the Italian Lira – you had to carry wads of them, but they had little value. If you have a banknote bearing more than four zeros, for example, 10,000, drop the four zeros and you'll have the right number – and $1.

■ MORE CUSTOMS: If your business partner invites you to lunch, be prepared to eat huge courses – of meat, naturally – accompanied by several glasses of Yugoslav wine with toasts to your's and everyone else's good health.

Rakija or slivovica, Yugoslav brandy, is very strong, so beware. You may find vijnak more manageable.

■ BANKING: Opening a bank account is difficult; the rules seem to change at the whim of a particular bank teller – especially at Beogradska Banka. The customer is occasionally charged a percentage for withdrawing funds. Wire transfers can take over a month. In addition, the bank debits a hefty sum when a personal cheque drawn on a foreign account is cleared through a customer's account. By all reports, Jugobanka and Ljubljanska Banka are easier to deal with.

■ TELEPHONES: If you have trouble with a bank, you could phone your own bank to speed up the transaction. But be prepared to wait. The telephone system is under pressure.